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ECONOMIC AFFAIRS

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13 MARCH 1987

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NATIONAL AFFAIRS, POLICY

LIU GUOGUANG ON DEVELOPING COMMODITY ECONOMY

Beijing ZHONGGUO SHEHUI KEXUE [CHINESE SOCIAL SCIENCES] in Chinese No 6, 10
Nov 86 pp 3-26

[Article by Liu Guoguang [0491 0248 0342]: "Restructuring the Economic System Goes Hand in Hand with Developing a Commodity Economy"]

[Text] The development of a socialist commodity economy is basic to the restructuring of the economic system in socialist nations. This topic ranges far and wide and involves many issues. Here we discuss only three of them.

I. The Development Of A Commodity Economy Under Socialism Poses A New Issue In Marxism

1. The Understanding that a Socialist Economy is a Commodity Economy is a Hard-won Victory

The "Decision of the CPC Central Committee Concerning the Restructuring of the Economic System" points out clearly that the socialist economy is a planned commodity economy based on public ownership. This is the first time the nature and characteristics of a socialist economy are comprehensively summarized and defined in party decisions and documents. This profound summarization not only has basic instructive significance for socialist construction in China in the future, but also constitutes a major contribution to Marxist political economy.

The founders of Marxism lived in the capitalist society of the nineteenth century. After witnessing the developed commodity economies of the time and analyzing the contradictions in the capitalist commodity economy, they concluded that as private capitalism was replaced by socialist public ownership, commodity production would cease to exist. In his "Critique of the Gotha Program," Marx said, "In a collective society based on public ownership of the means of production, producers do not exchange their own products, nor will labor expended on the production of products be expressed as the value of these products." (Footnote 1) ("Selected Works of Marx and Engels," Chapter 3, p 10) Engels also wrote in " " "Once society takes over the means of

production, commodity production will be abolished... The state of anarchism in social production will be replaced by planned, politically conscious organizations." (Footnote 2) (Ibid., p 323)

Lenin's understanding of the fate of the commodity economy in a socialist society underwent an evolution. In "The State and The Revolution," he envisioned the future socialist society as a syndicate, that is, a giant enterprise. After the triumph of the October Revolution, Lenin and the Russian Communists began putting together a socialist economy in accordance with this vision. They tried to create the conditions for the elimination of currency and the replacement of commodity exchange by product exchange. As civil war broke out, they instituted war communism. Recalling this series of events, Bukharin said, "At the time we did not regard war communism as a military system, a system made necessary by a particular stage in the civil war. Instead, we saw it as a policy that the proletariat should extensively adopt in the wake of victory." (Footnote 3) (Bukharin: "On Today's Liquidators," in "Selected Works of Bukharin," People's Publishing House, p 109) But it was not long before Lenin discovered that the system did not work. He said, "We made many mistakes in this area. We went too far--in nationalizing commerce and in prohibiting local circulation." (Footnote 4) (V.I. Lenin: "Collected Works," Chapter 32, p 208) Subsequently they switched to the new economic policy (NEP), encouraged commodity production, expanded commodity circulation, made use of such economic levers as taxes and prices, and adopted an economic accounting system in state-owned enterprises. "State capitalism was replaced by state regulation of commercial and monetary circulation." (Footnote 5) (V.I. Lenin: "Collected Works," Chapter 33, p 73) As a result, the fledgling socialist economy was saved from its beleaguered state. His untimely death, however, prevented Lenin from reviewing the experience of the NEP and ruling clearly whether the development of commodity monetary relations was an expedient or an guidepost for long-term development.

As industrialization and agricultural collectivization went under way after Stalin came into power, intensive centralization and the use of administrative fiat to manage the economy were re-emphasized. The scope of the planned economy was enlarged and controls became downright suffocating. Upon the completion of agricultural collectivization, Stalin pointed out, "As long as the two systems of public ownership, namely, ownership by the whole people and collective ownership, exist simultaneously, there will be two classes--workers and peasants, along with a need for exchange between them." For years, however, Stalin never stated explicitly whether or not the exchange between the two systems of public ownership constituted commodity exchange. The theoretical community, too, debated this question endlessly. In 1943, Stalin began admitting that the law of value existed under socialism but argued that it was a "reformed" law of value. Only in 1952 did he affirm in his work "The Soviet Socialist Economic Question" the presence of commodity production and the law of value in a socialist economy. Nevertheless, he attributed the presence of commodity production to the coexistence of the two forms of public ownership--ownership by the whole people and collective ownership--and argued that commodity exchange was absent from the state sector of the economy owned by the whole people and that means of production were not commodities. Furthermore, he stressed that the law of value did nothing to regulate production since "the means of production were removed from the realm

where the law of value has an impact." Stalin proposed using product exchange to replace commodity exchange between the two systems of public ownership and made this the goal of economic development. Evidently Stalin still regarded the entire state-owned sector of the economy as a giant factory, a syndicate. It was exactly this perception that formed the basis for the highly centralized economic planning model of the Soviet Union.

The writers of Marxist classics were continuously challenged by the test of practice regarding the notion that commodity production and commodity exchange would not exist in a socialist society. After the 1950's, the shortcomings of the orthodox highly-centralized economic model became increasingly obvious. One after another, socialist nations began embarking on the road of reform. Meanwhile, understanding of the nature of socialist economic theory deepened by the day. It can be said that all socialist nations in the world today which are restructuring their economic systems seek to develop commodity monetary relations. This is as true for Yugoslavia and Hungary as for the Soviet Union. These nations each pick their own direction of economic reform and differ from one another in the way they theoretically sum up commodity monetary relations in a socialist economy. But they resemble one another in that they have all acknowledged and developed a socialist commodity economy to various extents.

As far as the development of a commodity economy under socialism is concerned, China too went through a tortuous ideological course. In the first years after the People's Republic was founded, with a variety of economic forms existing side by side, it is only natural that a commodity economy was present under those circumstances. Then Stalin's "The Soviet Socialist Economic Question" was published. We studied it and set about building our economy based on the Soviet model. After the "double hundreds" policy was put forward in 1956, discussion raged briefly on the commodity economy issue, only to be followed soon by the ascendancy of the anti-rightist forces, the Great Leap Forward, and communization. The "communist wind" was blowing hard; it became fashionable to talk about the withering away of the commodity economy. Comrade Mao Zedong pointed out at the time that Chinese commodity production remained very backward and that a major effort was necessary to develop it. Commodities were not limited to personal consumer goods but included some means of production. In some areas, there was still room for commodity exchange in the system of ownership by the whole people under full socialism. He also pointed out that the law of value is "a great place of learning. Only by using it can we teach our tens of millions of comrades and hundreds of millions of people. Only by using it can we build our socialism and communism. Otherwise everything is out of the question." Unfortunately these correct ideas were not put into practice properly. Comrade Mao Zedong experienced a theoretical regression in his later years when he came to believe that socialist social commodity production and monetary exchange were hardly different from their counterparts in the old society and must be held in check under the dictatorship of the proletariat. During the "Cultural Revolution," the "gang of four," prompted by ulterior motives, equated commodity production with capitalism and, in the name of "blocking the road of capitalism" and "cutting the tail of private ownership," did their utmost to limit the effects of commodity monetary relations and the law of value. This naturally multiplied the difficulties of developing a commodity economy.

Only after the 3d Plenary Session of the 11th CPC Central Committee did we begin to see a basic shift in this state of affairs. The restructuring of the Chinese economic system started in the countryside. It was there that radical departures were first made from the traditional economic system with its rejection of commodity monetary relations. At the beginning, however, the theoretical circle in general only concerned itself with the development of commodity production and commodity exchange and shied away from discussing the commodity economy. Over the past few years the theoretical community has changed its mind about whether or not a commodity economy is a socialist economy and the relations between planning and the market. Some comrades used to contend that under no circumstances could we generalize the Chinese economy as a commodity economy, despite the presence of commodity production and commodity exchange. To do so, they argued, is to blur the distinctions between a planned socialist economy and an anarchic capitalist economy and obliterate the essential differences between socialism and capitalism. Basically this interpretation still equates a commodity economy with a capitalist economy. Furthermore, these comrades held that only a command economy can be the hallmark of a planned economy and regarded the proposal to expand guidance planning incorporating market mechanisms as something that will undermine the planned economy and the socialist system of public ownership. People who subscribed to this view had yet to unburden themselves of the old dogma that a commodity economy and a planned economy are mutually exclusive. This critical theoretical debate was not resolved decisively and scientifically until the 3d Plenary Session of the 12th CPC Central Committee. By affirming the socialist economy as a planned commodity economy, the "Decision" of the Central Committee effectively freed us from the theoretical bondage of traditional economic thinking. The fact that this understanding is a hard-won victory shows that to develop a commodity economy under socialism indeed poses a new issue in Marxism, an issue that can be resolved only gradually through practice and continuous exploration.

2. The Commodity Economy is a Stage in Social Economic Development that Cannot be Omitted

Why does a socialist economy necessarily possess the attributes of a commodity economy? First, because it involves extensive social division of labor, a common prerequisite for the presence and growth of a commodity economy. Second, at the present stage of the socialist economy, not only can we find different variations of public ownership and different forms of ownership with public ownership as their centerpiece, which interact with each other economically through commodity exchange, but within that sector of the economy owned by the whole people, society must still recognize the capabilities of individual workers as "natural right." This is because differences remain between individual labor and social labor and labor is still man's means of livelihood. Consequently, despite a general agreement of basic interests, there are still economic conflicts between individuals and between enterprises. Thus it is impossible to treat the operations of the entire social economy as a syndicate, a giant factory. Instead we must regulate

social economic relations in accordance with the commodity economic principle of exchange of equal values. Hence the inevitability of commodity monetary relations.

Some people in the theoretical community argue that it is inconsistent with the interpretation of commodity relations in Marxist classics to prove the objective inevitability of the existence of socialist commodity relations on the basis of interest conflicts. And, indeed, Marxist classics repeatedly state that commodities are private producer goods first and foremost and that commodity relations will cease to exist the moment private ownership disappears. But commodity relations do not originate with private ownership, a point Marx made early on. For instance, he noted right away in the first chapter of "Das Kapital," "Commodity relations manifest themselves economically as relations between strangers," "which can be carried on as long as they treat one another as independent individuals." He also said, "In ancient times, commodity exchange was the ultimate of a community. It began where the community came into contact with other communities or its members." (Footnote 6) ("Collected Works of Marx and Engels," pp 105-106) It can thus be seen that as long as economic self-interests exist and individuals regard one another as strangers, then the roots are present for commodity relations. Therefore, it accords with the spirit of Marxist classics to prove the inevitability of the existence of socialist commodity relations on the basis of differences in interests.

Developing a commodity economy is essential to economically underdeveloped socialist countries like China. The development of a commodity economy will mightily stimulate the growth of its socialist economy in these ways:

First, strengthen the concept of value and emphasize economic results. In commodity relations, value is the common yardstick for evaluating the efficiency of all economic activities. Whatever their individual labor consumption, the products of enterprises are judged by society with the same socially necessary labor time. The law of value, the basic law of a commodity economy, is the natural judge of who wins, who loses. As such it becomes a force silently prompting every enterprise to work hard to economize on live labor and material labor and expedite technological advance and the improvement of social labor productivity.

Second, sharpen the public's market concept and customer awareness. Commodities are produced for the market, for the customer. The development of commodity production requires every enterprise to produce what the market demands. If it does otherwise, its products will be unmarketable and it will not be able to realize their value. This mechanism therefore links production to demand and closely connects social production to social consumption.

Third, the development of a socialist commodity economy will help free our economy from all kinds of restrictions and end all manner of fragmentation and division, promote social division of labor and professionalization, and boost the socialization of labor and production. All this will powerfully strengthen the development of social productive forces in China and speed up modernization.

3. Develop a Commodity Economy, not Capitalism

China's effort to restructure its economic system and develop a commodity economy has provoked all kinds of comments and speculation both at home and abroad. Domestically, some well-intentioned comrades worry that we will take the capitalist road. Overseas, too, a number of friends are full of doubts and misconceptions. There are also some people who hope that China will reform in the image of capitalism. A professor in Hong Kong wrote an article suggesting that the restructuring of the economic system will gradually bring China closer to capitalism. A reference document entitled "Economic Prospects for Mainland China after Reform" issued by the U.S. Department of State claims that reform will definitely help China's modernization drive. For reform to really work, however, China must put an end to all kinds of restrictions and "ever more firmly move ahead in the direction of capitalism." All this talk arises from the fact that the majority of people see a commodity economy as something based on private ownership. Thus they assume, wrongly, that to develop a commodity economy necessitates the development of a private economy. Furthermore, we emphasized for years maximizing the extent of public ownership--"the greater the extent of public ownership, the better"--and continuously sought to "upgrade" the ownership system by bringing about its transition from one stage to another. Meanwhile, we persistently tried to undermine capitalism. The upshot was a more and more homogeneous ownership system, accompanied by a more and more shackled commodity economy. Both developments readily led the public to assume that the development of a commodity economy and that of a private capitalist economy are one and the same thing. Actually, a commodity economy can rest on public ownership. Marx pointed out long ago, "Despite their varying scope and functions, commodity production and commodity circulation can be found in extremely disparate production models." (Footnote 7) ("Collected Works of Marx and Engels," Chapter 23, p 133) Commodity relations were born in the latter days of the primitive society, a long long time before capitalism appeared, and will continue to exist for many years in the post-capitalist socialist society. Hence developing a commodity economy does not amount to encouraging capitalism.

A plurality of ownership systems exists in China today, which explains the presence of various kinds of commodity economy. Nevertheless, the center stage still belongs to the socialist commodity economy. The socialist commodity economy differs from the capitalist commodity economy. What are its characteristics? First, this kind of commodity economy is built on the basis of public ownership. This is its most salient feature. And indeed it is. Because of structural reform in the ownership system in recent years, the individual economy and collective economy have grown considerably, but the individual economy has produced only a handful of private enterprises of a capitalist nature. In addition, as we opened ourselves to the outside world, a number of foreign-owned enterprises have sprung up. But they too are subject to state control and management. In general, the non-public sector of the economy outside the state and collective sectors account for a rather small portion of the entire national economy. (According to 1984 statistics, it accounted for less than 2 percent of gross value of industrial output and less than 15 percent of total social commodity retail sales.) Moreover, an

overwhelming share of the non-public sector supports itself with its own labor. We insist that public ownership play a leading role despite the diversification of ownership systems. Thus the non-public economy operates amid the towering superiority of the public sector. To suggest that economic reform and the development of a commodity economy can only proceed in the direction of economic privatization and will result in the individualization of the collective economy has absolutely no basis in fact.

The second characteristic of the socialist commodity economy is planning. That is, it is planned and controlled, unlike the capitalist commodity economy, which is basically anarchist. In essence a commodity economy is haphazard and tends to be wasteful of social labor. But socialist nations can draw up national economic development plans to serve as the basis for coordinating and controlling the overall macroeconomy.

Certainly we must be realistic enough to see that given the presence of a commodity economy, China's national economic planning can only be general and flexible on the whole. It cannot be all-embracing and inflexible, which is merely wishful thinking on the part of bureaucrats. With the guidance and regulation provided by planning and under administrative management, we can avoid and drastically reduce the haphazardness and spontaneous fluctuations of a commodity economy and make all economic activities conform with the social interest and overall strategic development objectives.

The third characteristic of a socialist commodity economy is that it combines equal labor exchange and the exchange of equal values and aims at making everybody wealthy. The development of a socialist commodity economy inevitably enables some people to get rich ahead of others. This results unavoidably from the operation of the law of value, which controls commodity production. We must not try to limit economic disparities by holding back the development of the commodity economy. Instead, we must adopt appropriate income distribution policies, etc., to regulate the wages of workers in different enterprises, sectors, and regions, even as we steadfastly pursue the establishment of a unified market, uphold equal competition, and make use of the law of value to reward the competents and eliminate the weak. We accept differences, on the one hand, and confine such differences to appropriate limits, on the other, so that everybody will become well off.

In short, the development of a socialist commodity economy will not restore private ownership and lead to capitalism, as some people fear and others hope. What it will do is to give socialist modernization a powerful shot in the arm.

II. Relations Between Developing a Commodity Economy and Restructuring the Economic System

1. To Develop a Commodity Economy, We Must Restructure the Economic system

Severely circumscribed and impeded by the traditional economic system, the commodity economy did not grow as fast as it should in the 3 decades following the founding of the People's Republic. The traditional economic system is a highly-centralized planned economy that rejects market mechanisms. It has the

following features: 1) increasing uniformity in economic forms and ownership systems; 2) economic decision-making power highly centralized in state organizations. How an enterprise conducts its business mainly depends on orders from the leading organization above; 3) economic activities are mainly regulated by direct administrative tools. Enterprises act according to input-output targets handed down by administrators; 4) egalitarianism reigns in income distribution, with enterprises "eating out of the common pot" of the state and workers doing likewise at the expense of enterprises; and 5) in terms of organizational structure, government and enterprise functions are merged. The vertical chain of command dominates and sectors, localities, and enterprises all set their sights on forming a self-contained system. The result is a fragmented and closed organizational setup.

This kind of economic system impedes the development of a commodity economy in three ways. 1) Enterprises and other basic production units have no independent economic interests. They assume no responsibility for their profits and losses and are not independent commodity producers. 2) Market mechanisms are severely restricted. Because of China's refusal to recognize means of production as commodities, the commodity market is incomplete, while markets do not even exist for such elements of production as capital and labor. The function of the law of value is not respected and prices are grossly distorted. In a fundamental sense, market regulation of the economy does not exist. 3) The state directly manages production and enterprise operations. Not only are the production and exchange of state-owned enterprises conducted in accordance with the command plan, but the bulk of the production and operations of the rural and urban collective economies also fall within the purview of the state monopoly on purchase and marketing. The resulting fragmentation severs the horizontal economic linkages intrinsic to a commodity economy.

The theoretical community is divided on the guiding ideology for the traditional economic model. Some comrades say it is the product economic theory, others suggest the natural economic theory. The so-called product economic theory refers to the prediction by Marx and Engels that after the victory of the socialist revolution, commodity monetary relations will wither away and society will adopt direct resource, labor, and product distribution. The economic system built upon this guiding ideology is a planned economy of the product type. Simply put, the so-called natural economic theory rejects commodity exchange and is a philosophy of autarky and isolationism. The traditional economic system built on this theory is a planned economic model of the natural economic type. As Comrade Sun Zhifang [1327 3112 2455] pointed out, in the past we "regarded a socialist economy as similar to the economy in kind of a primitive communist society, with this difference. Today we have a centralized planning apparatus directing the economic activities of the entire society. Previously that was the job of the chieftain of the primitive tribal economy." (Footnote 8) (Sun Zhifang: "Certain Theoretical Issues in a Socialist Economy," People's Publishing House, p 60) These two guiding ideologies have one similarity: Both reject commodity monetary relations and circulation. On the other hand, the product economic theory can be achieved only in the future when there is an economy of abundance; it is more of a fantasy at the moment. In contrast, the natural economic theory is a product of prolonged economic backwardness and isolation in the past and is pregnant

with feudalism. Both the product economic theory and natural economic theory have left their mark on the country's traditional economic system, particularly the latter. The natural economy has been perpetuated for thousands of years. Although it suffered a heavy blow during the Opium War, natural economic concepts continued to shackle people's behavior because the commodity economy developed sluggishly. Fragmentation, self-containment, the desire of units large and small for self-sufficiency, conservatism, international isolation, the lack of a sense of time, the taboo on profits, and the fear of competition—all this was exactly caused by and manifested the natural economic idea of self-sufficiency. Many units became mini-societies in control of all facets of human life, ranging from what a person ate to education, culture, politics, and laws. They were redolent of the plantation-style natural economy. The "iron rice bowl" phenomenon and the habit of "eating out of the common pot" in China's financial and economic management bear vestiges of the same supply system and are reflection of the natural economy. Certainly Marx and Engels' ideas that the future society would directly manage product production and distribution, Lenin's portrayal of the entire social economy as a giant enterprise, a syndicate, and our mistaken acceptance of it have also added a product economic veneer to the old economic system that was primarily dominated by natural economic thinking. In short, whatever influences the product economic theory may have had on the traditional economic system are essentially intellectual and conceptual, whereas the imprint of the natural economic theory is demonstrated in real life.

In the almost 30 years before the 3d Plenary Session of the 11th CPC Central Committee, the economic system had undergone one change after another. But the natural economic theory, in the guise of a product economy, still pervaded every aspect of the economy. It rejected division of labor, market, and competition, stunted the growth of the commodity economy, and turned what otherwise would be a vigorous socialist economy into an increasingly ossified system unable to bring its strength into play. Therefore, it is impossible to develop a commodity economy without first breaking the ideological stranglehold of the natural economic theory and restructuring the economic system.

2. To restructure the economic system, we must meet the requirements of developing a commodity economy.

In restructuring the economic system, we face the question of where we should direct the thrust of our effort and where we want to go. Such questions involve what we usually call the model of economic reform. People have traditionally disagreed with one another on this matter. For instance, should the restructuring of the economic system be partial, ameliorative improvements or a basic switch to a different economic model? Should command planning be retained as the dominant form of planning, or should it be abandoned in favor of guidance planning? No consensus was reached on these issues in the past. After the 3d Plenary Session of the 12th CPC Central Committee promulgated the "Decision Concerning the Restructuring of the Economic System," we all managed to agree that a socialist economy is a planned commodity economy and that reform should proceed in the direction of a planned commodity economy. But what really makes up a planned commodity economy? There is still widespread disagreement. Some put the stress on "commodity economy," others emphasize

"planning." A professor at Beijing University who stresses the "commodity" aspect, argues in a recent article, "The basic idea in reform is that a socialist economy should be a commodity economy first, and a planned commodity economy second." On the other hand, a professor at People's University who emphasizes economic planning points out in a recent paper, "Whether it be planned economy or planned regulation, it should always play the leading role in the socialist economy." "As long as a socialist economy practices public ownership and economic planning and allows planned regulation to play the leading role, then it will not be drawn closer to capitalism no matter how much it makes use of market mechanisms." People choose different reform models as well as vary in their emphases. Some opt for indirect market regulation; others, indirect government regulation. A similar schism exists with regard to what kind of economic reform in socialist nations in the world we should emulate. Reform in Hungary, for instance, has so far resulted in a model characterized mainly by indirect administrative regulation. Some people are content with this model, arguing that it would do just fine with some improvements. But other economists like Ke Er Nai argue that the present model of indirect administrative coordination must be further refined into a model of market coordination with macroeconomic control. This kind of intellectual debate is natural and normal. Only by letting a hundred schools of thought contend can we heighten our understanding. We must realize that it is impossible in reality to rely completely on either administrative planning and coordination or totally unrestrained market forces. The essence of the debate is to find a reasonable meeting point between two extremes. This must be done through detailed analysis based on actual conditions. As far as China is concerned, the general purpose is to find a way to develop a socialist commodity economy and gradually set up market coordinating mechanisms that incorporate planning guidance and macroeconomic control.

The purpose of reform is to dismantle the barriers blocking the development of a socialist commodity economy. Our effort must revolve around the central link of strengthening the enterprise as a commodity producer and operator and creating both external conditions and internal mechanisms favorable to the healthy development of a socialist commodity economy. In line with this philosophy, the ideal model for economic reform should have these basic characteristics. 1) The traditional system containing a single ownership system militates against the development of a commodity economy. We should strive to create a new setup where a multitude of ownership systems coexist, with public ownership in the leading role, and where a variety of business methods can flourish together. More important still, we should put an end to enterprise helplessness so that enterprises become genuinely independent socialist commodity producers and operators that manage their own affairs and are accountable for their own profits and losses. 2) A highly centralized decision-making structure and patriarchal, paternalistic relations between the state and enterprises shackle the development of a commodity economy. We should develop a multi-level decision-making and accountability structure in which the state, enterprises, and household individuals all have their own spheres of responsibility. The state should take charge of macroeconomic policy-making, while microeconomic activities are best left to enterprises and household individuals as much as possible. 3) Command planning as practiced in the past rejected the function of market mechanisms and should be scaled back, accompanied by a corresponding increase in that of guidance planning and

market regulation. Instead of directly giving commands to enterprises, we should now apply such economic levers as prices, taxes, and credit to regulate their activities and, under the guidance of the national plan, use the market and the law of value to coordinate economic operations. 4) The egalitarian practice of "eating out of the common pot" in distribution is incompatible with the demand of developing a commodity economy. Reform requires a new set of distribution relations between the state and enterprises, and between enterprises and workers that will link income distribution to economic performance and labor contributions, and genuinely realize the principle, the more you work, the more you earn. This will bring about competition to weed out the incompetents and create an interest system to improve efficiency and encourage technical progress. 5) Administrative division of power leads to fragmentation and mutual isolation, which seriously impedes the development of a commodity economy. We should simplify administration, decentralize power, sever government from enterprises, and reorganize enterprises or merge them to meet the need to forge horizontal economic linkages and form a national unified market in order to establish a criss-cross network-like economic structure. To sum up, we must, through the various reforms mentioned above, establish a new economic order step by step that will organically and appropriately combine planning and market, macroeconomic management and microeconomic invigoration, and centralization and decentralization, and continuously ensure socialist production relations in which public ownership plays the leading role and which lets everybody become rich. Such an economic order will promote the healthy development of socialist commodity relations through the ways the three parties—enterprises, market, and state—manage the economy. As enterprises become increasingly independent commodity producers and operators, as a unified market takes shape gradually, as market mechanisms are perfected over time, as the state abandons direct economic intervention in favor of microeconomic regulation using economic tools while controlling the overall economy; in short, as the new vibrant and dynamic economic system emerges and grows, the socialist commodity economy in China will develop rapidly and socialist modernization will achieve even greater results.

3. Economic Dualism where New and Old Systems Coexist

The transition from the old to the new systems can be effected in two ways: across-the-board change and incremental change. Which is better? This question has been debated for years by Chinese and foreign economists. Certainly, across-the-board change offers an advantage in that it brings about coordinated changes at once and avoids "confusion in traffic regulations." China has not gone in for this kind of change, which would have subject the economy to a traumatic one-shot transformation, and opted for incremental change. This choice took into consideration the need to avoid excessively violent changes in interest relations in the course of economic reform as well as such national characteristics as China's vast size, huge population, economic and cultural backwardness, and grossly uneven levels of development. Incrementalism necessarily results in an interim period when old and new meet. During this period, the new system has just been born while the old system has yet to disappear. The old, non-commodity economy exists side by side with the new, commodity economy. Enterprise mechanisms, market mechanisms, and state control mechanisms—none of them can be free from dualism. Though now armed

with a measure of functional autonomy, enterprises are still so hamstrung by myriad administrative rules and regulations that they have no choice but to keep one eye on the higher authorities and another on the market. Even as they reduce direct intervention in the economy, the government must alternate administrative tools and market coordination since indirect macroeconomic control tools cannot yet function effectively. Hence the dualism in enterprise behavior and state macroeconomic control.

The most striking thing about the phenomenon of economic dualism is the dual price system: the presence of both allocation prices as set by the plan and market prices outside the plan. The dual price system actually reflects the dualism in many other facets of the economy. In the planning system, for instance, there is a dual management system for products within the plan and outside, respectively. Even a single type of product made in the same enterprise can be in the plan and outside. In goods and materials circulation, some materials are allocated in a centralized way; others are freely bought and sold on the market. Thus a dual circulation system has come into existence, consisting of market channels as well as non-market channels. In construction investments, some of the capital is appropriated by the state as outright grants, some is raised by sectors, localities, and enterprises on their own, and some is made up of bank loans. In addition, there has also been a proliferation of the methods of raising capital on the market. The result is a dual—vertical and horizontal—investment system. The presence of two sets of prices, official and market, is a special product of incremental reform in China. Of course, at a time of material shortages, official underpricing, and price maladjustment, unofficial prices spring up inevitably. But it is only in the past several years that extra-plan prices of means of production were legitimized, thereby giving a stamp of approval to the dual price system.

The basic thinking behind the dual price system is this: gradually deregulate some of the products made by state-owned enterprises and let them enter the market. With more products on the market, market prices would be lowered. At the same time, prices within the plan should be gradually adjusted upward so that the two sets of prices would approach one another until they coincide altogether. Since the dual price system for means of production has obvious disadvantages as well as advantages, it has been the subject of a heated debate among economists. Comrades who advocate it as a current necessity stress the following advantages: 1) stimulates production both within and outside the plan; 2) enables some areas neglected by the plan to obtain means of production more readily; 3) high market prices may motivate people to economize and dampen the demand for inefficient products; and 4) controls price levels and gives a touch of the market to the planned allocation of means of production by regulating the share of a product to be allocated through the plan and that freely circulated through the market. Comrades opposed to the dual price system stress its shortcomings as follows: 1) tends to derail the national plan and affect material supplies for key national construction projects and major development sectors; 2) may create confusion in commodity circulation and complicate market management; 3) destroy the effectiveness of money as an equivalent; 4) the existence of several prices for one product complicates enterprise accounting and introduces chaos in enterprise management; 5) differences between official and market prices favor

the development of small enterprises, protect backward technology, and worsen enterprise structure and technical structure. Besides, when differences between official and market prices become excessive, they create opportunities for speculators and black-marketeers, which is detrimental to the social climate.

Consequently we should be aware of both the conflicts and contradictions of the dual price system as well as its more positive aspects. The twin occurrence of investment fever and inflation some time ago led to a loss of control on the macroeconomic front. Market prices rose too fast, creating wide gaps between themselves and list prices. We wound up with both artificially low and artificially high prices. Its shortcomings thus magnified, the double price system has come under a rising chorus of criticism. This year we succeeded in reining in the total demand and narrowing the gaps between list and market prices of commodities in short supply. This, in turn, has eased the conflicts generated by the system. Presently reform has barely begun and enterprises are only starting to gain vitality, their self-regulatory and self-control mechanisms not yet fully developed. As they become taken up with the pursuit of short-term limited objectives, they often tend to make this or that mistake, which is usually related to the conditions at the time. Accordingly, we must analyze the root causes of a problem and be aware of its positive side too. Since we cannot switch over to the new system from the old overnight, we must adopt the dual price system; this is its objective *raison d'être*. It means that we must not revert to the old system just because dual pricing creates its own share of conflicts. Noting that dual pricing is ridden with problems, many experts have proposed that it be abolished and replaced by a unified price system as soon as possible. At the international conference on macroeconomic management last September on board the ship, Changjiang Basha, many foreign and Chinese scholars argued that while dual pricing for means of production may be an innovation of China's reform movement, its duration should be shortened as much as possible to hasten the arrival of a single price system. In short, the old and new systems cannot coexist for long because of their mutual conflicts and various difficulties arising therefrom. This requires us to actively create conditions to phase out the old system in favor of the new and hence expedite the replacement of the non-commodity economy by a commodity one.

III. Several Theoretical Issues Relating To The Further Development of the Commodity Economy

We must address a series of theoretical issues if we are to speed up the transition from the old system to the new, from a non-commodity economy to a commodity economy.

1. Relations between Ownership System and Reform

As pointed out above, an important way to develop a socialist commodity economy is to overhaul the old single-ownership system, which is unfavorable to the development of a commodity economy, and replace it with a new setup

where public ownership dominates but does not exclude other ownership systems. The restructuring of China's economic system should include two related aspects. First, the reform of economic operational mechanisms. Second, the reform of ownership relations. Our reform experience over the past few years proves that the former, including adjustments in decision-making structure, the strengthening of market mechanisms, and changes in regulatory and control systems, invariably involve changes in property relations and ownership relations. That is why some comrades in the theoretical community have argued that reforms in the ownership system hold the key to the restructuring of the entire economic system.

"Make public ownership the mainstay of the economy and allow several ownership systems to coexist." This proposition has three implications. First, reforming the ownership system under socialism does not mean getting rid of public ownership and replacing it with private ownership, which is what some people imagine. Instead, we must take realities as our point of departure and fashion a new system of public ownership suited to the development level of productive forces and compatible with the needs of a commodity economy. We must perfect socialist public ownership. Second, in the ideal model for ownership system reform, there are various forms of ownership system, not one. They are not isolated but are related to and interact with one another. In a new noteworthy phenomenon over the last few years, economic unions and enterprise groupings that transcend ownership boundaries have sprung up. Third, while the new ownership system allows non-public ownership systems to grow to a certain extent, it is public ownership which remains the mainstay of the economy and state ownership which continues to play a leading role.

What then do we mean by "public ownership constituting the mainstay of the economy and state ownership playing a leading role?" The theoretical community offers two points of view. According to the first point of view, the main thing is whether the public sector, particularly the state-owned sector, accounts for the largest share of the overall economy. The other point of view is that the leading role of the state-owned sector has less to do with its share of the overall economy and more to do with whether or not it controls the lifeblood of the national economy and can increase its organic ties to and influence over other ownership systems on the basis of rising social productive forces, and bring out its own strength. It seems that in determining whether public ownership is the mainstay of the economy and whether state ownership plays a leading role, we must consider the quantitative aspect, that is, their shares of the overall economy, and, more important still, their capacity to use their quantitative and efficiency advantages to dominate and lead joint economic organizations and the overall national economy.

In recent years we have supported the growth of the collective economy and individual economy in various ways, while slackening the pace of the deregulation of state-owned enterprises, particularly large and medium-sized enterprises. The upshot is unequal competition in which backward technology nudges out advanced technology and small enterprises vie with large enterprises. In income distribution, an abnormal phenomenon has occurred: state-owned enterprises are earning less profits than collective enterprises, which, in turn, are not doing as well as individual householders. This

situation does not necessarily result from the coexistence of several ownership systems. The problem arises from a lack of coordination among various reform measures. The problem arises from a lack of coordination among reform measures. If state-owned enterprises cannot compete against other economic forms, their only hope is to reform their management. Unequal competition between the different economic forms must be resolved through price reform and a coordinated plan to adjust taxes, credit, and other economic policies. As for fixing quantitative shares for different ownership systems, in view of the public sector's, particularly the state-owned economy's, overwhelming share and the non-public sector's minuscule share at present, it seems that we need not rush into such a move. Rather, what we should do is to place the non-state sector on the same plane as the state-owned sector in our policies and measures and test their vitality and efficiency amid equal competition. Not only does this constitute no threat to the state-owned sector of the economy, but, on the contrary, it will motivate, push, and pressure it into accelerating reform and improving efficiency in order to maintain its superiority in the overall economy.

The most controversial issue in the theoretical community concerning the development of the non-public sector is the hiring of labor. Businesses that currently hire labor constitute only a tiny portion of the nation's overall rural economy. Households with hired labor make up about 1 percent of rural households, while the number of hired laborers account for 2 to 3 percent of total rural labor force. Of the households with hired labor, 25 percent have more than seven laborers. A few have over 100,000 yuan in assets and hire over scores of workers, sometimes as many as 100. Most comrades believe that hiring labor is inevitable in the growth of a commodity economy. It facilitates the development of China's social productive forces and should be allowed under tightened control. There are basically two schools of thought concerning the nature of the hiring of labor. One is based on the Marxist theory of surplus value. This school holds that the hiring of labor is tinged with the capitalist exploitation of private enterprise and should be distinguished from the individual economy where an individual may hire a handful of helpers while relying primarily on family labor. They propose that businesses be explicitly given the legal right to hire labor. They should be recognized as a necessary supplement to the socialist economy, like the individual economy. This will promote classified management. Comrades of this cast of mind also think that the existence in China today of enterprises with a trace of capitalism is not an alarming thing. What would be alarming is for us to artificially cut off the tail of capitalism or worship capitalist things as socialist. The second school of thought suggests that we cannot apply thoughtlessly Marxist ideas more than a century old to explain the hiring of labor by businesses in China today. Existing as it does in the midst of a socialist economy, the capital of rural enterprises that hire laborers effectively belongs to society as long as it remains active and in circulation. In the future, society can even make laws requiring an employer to reinvest the bulk of what he makes from his business, thus entrusting to him the function of accumulation. Income that has been converted into accumulation cannot be regarded as income derived from exploitation. Comrades of this school argue that hiring of labor by rural businesses is non-capitalist and free from exploitation. They propose that hired laborers be called workers and employers operators. Comrade Du Runsheng [2629 3387 3932]

said not long ago that the hiring of labor is flexible and that while it contains an element of capitalism, it does not amount to capitalism. Of course, this remark was made with China's present circumstances in mind. What is more controversial and objectionable in society at the moment is the handful of large employers making quick fortunes by abusing their public office or exploiting loopholes in our management system. Some comrades worry that our tolerance for the existence of large employers will lead to polarization. Certainly the presence of large employers is inevitable so long as we need to develop a commodity economy. To a certain extent their existence and growth can influence the behavior of individual households around them, encouraging the latter to plow even more incomes back into investment, not consumption, which is good for the development of social productive forces. At the same time, China's commodity economy is a planned commodity economy whose mainstay is public ownership. With the lifeblood of the economy and macroeconomic mechanisms in its grasp, the state is able to regulate and control the hiring of labor, so any fears of polarization are unfounded. But we should carefully investigate and analyze large employers, set up a regulatory framework, and, through such intervention as taxes and stiffened industrial and commercial management, ensure the proper distribution of benefits and decent enterprise behavior. Learning from practical experience, we should also explore the possibility of steering the private economy into the cooperative or state stockholding economy and gradually make it a part of the planned commodity economy. All this awaits solution through cooperation between the economic theoretical community and practical workers.

Because of its leading role in the overall economy, state ownership should be at the heart of future efforts to reform the relations between ownership systems. The difficulty here is not the small enterprise, vast in number and just right for decentralized operations. Experience shows that provided they are suitable candidates for such transactions, some state-owned small enterprises can be "contracted off, leased, or sold" to labor collectives and individual operators. These actions are both feasible and beneficial for the overall functioning of the economy as well as the enterprises themselves. No, the real snag in reform here has to do with large and medium-sized enterprises. While numerically insignificant, they own a major share of assets, account for an overwhelming portion of output value, and directly reflect and influence the vitality and efficiency of the entire economy. From the late 1950's to the time before reform, they became more and more rigid. Their basic characteristics are a merging of government and enterprise functions, low efficiency, and an absence of development despite growth. "Eating out of the common pot" is also practiced extensively. Both comrades in the theoretical community and practical workers have conducted serious research aimed at vitalizing large and medium-sized state-owned enterprises and transforming them into relatively independent commodity producers and operators. Their ideas can be summarized as follows:

The first approach calls for increased material incentives as the key to reform. A few years ago China carried out a number of reforms concerning bonuses, wages, management and decision-making power, and enterprise leadership systems. Although these changes have been useful in stopping workers from "eating out of the common pot" at the expense of their enterprises and heightening their initiative, they failed to really tackle the

problem of enterprises "eating out of the common pot" of the state. On the contrary, many enterprises, abusing power delegated to them by the state, handed out cash or materials in all disguises and thought of every way to augment short-term worker benefits. The result was a bonus explosion. It is clear that an exclusive reliance on material incentives is no way to reform large and medium-sized state-owned enterprises.

Also tried out in recent years in our attempt to alter the relations between state and enterprises were such experiments as those that allowed enterprises to retain profits in accordance with a graduated scale and replaced profits with taxes. Basically those changes aimed at eliminating direct government intervention in production, exchange, and distribution and did prove effective in invigorating enterprises for short periods. Owing to irrationalities in the price system and the uneven production conditions of different enterprises, however, they only worked to the benefit of well-endowed enterprises with price advantages, not the weaker ones with no price advantages. Driven by a simple desire to boost output and profits, while lacking a feel for taking risks in investment, enterprises invariably want to increase inputs, which does nothing to help quench the investment fever or to stop the investment explosion. Moreover, enterprises assume responsibility for profits only, not losses. They are concerned only with short-term, not long-term behavior. They are still "eating out of the common pot" at the expense of the state.

The second approach calls for basically abandoning state ownership and turning over the means of production of existing state-owned enterprises to the control of certain social groups. The idea is to bring about social ownership, collective ownership, and enterprise ownership and achieve a direct union between workers and means of production in production units, thereby fully unleashing the initiative of workers in their new position as masters. Citing foreign experience and lessons, however, some comrades think that social ownership or group ownership is fraught with problems and cannot be achieved in China.

The third approach calls for separating ownership from management. There are several variations on this approach:

(1) Establish an asset management responsibility system. By revaluating the assets of enterprises, we should set new targets for assessing the economic results of enterprises and establish a new unified proportion for distributing profits between the state and enterprises, all this without changing the state ownership of assets. Moreover, we should give full rights to enterprises to use assets and empower them to make decisions regarding the modernization, replacement, and use. Given the tens of thousands of enterprises involved, it is very difficult to arrive at one reasonable yardstick that can evaluate all assets in their myriad shapes and forms. Unreasonable evaluation will not only fail to straighten out the relations between the state and enterprises but also lead to inequities in the distribution of profits between enterprises. Still asset evaluation is inevitable if we want to establish an asset restraint relationship between the state and enterprises. Further practice and research are required here.

(2) Stockholding. This too is a hotly debated matter at the moment. In recent years, an array of fund-raising methods and stockholding economies has appeared in embryonic form and a handful of enterprises has also been selling small numbers of stocks to their employees on an experimental basis. This set people thinking whether or not stockholding can be incorporated into the ownership system as a key component. But some comrades object to stockholding and equate it with speculation on the stock markets in capitalist nations. To them, stockholding smacks of capitalism.

I am inclined toward the stockholding idea. There is no inevitable connection between stockholding and capitalism. In "Das Kapital," Marx mentioned stockholding as one of the prerequisites for the establishment of socialist public ownership. We are entirely capable of charting a way to socialist stockholding. Not only is stock ownership suited to a cooperative economy or joint venture economy which transcends the boundaries of different ownership systems, but it also constitutes an important path to the reform of state-owned enterprises. In general, a stockholding economy has these advantages: 1) ownership relations can take a tangible form. In the past, enterprises owned by the whole people belonged to everybody, but nobody took responsibility for their assets. Stockholding can put an end to this situation; 2) introduces mutual restraint between enterprise owners, managers, and producers to ensure rational enterprise behavior; 3) pools idle social funds and promotes horizontal capital circulation and the formation of capital prices, which will help control investment explosion and expedite the optimal allocation of social resources; and 4) when an employee owns a number of shares in his enterprise, he will become interested in improving its operations.

Strictly speaking, stockholding is only the external expression of ownership relations. Say you have two stockholding economies. In one economy, a majority of the stocks is owned by the state. In the other economy, the major stockholders are groups or a number of individuals. Although both are stockholding economies, the substance of their ownership systems is entirely different. If a majority of the stocks of enterprises are owned by individuals, then our goal of making public ownership play the leading role will remain unfulfilled. In fact, it is as yet impossible for individuals to come up with the hundreds of billions of yuan necessary to buy the assets of state-owned enterprises in stocks. And even when this becomes possible in the future, most of the stocks will probably end up in the hands of a tiny number of people, who will then become a class of profiteers, a development incompatible with the nature of our society. If enterprises become the major stockholders of state-owned enterprises, this does not alter the nature of public ownership. These days enterprises have displayed great potential as stockholders, which will only increase as they get to keep a rising share of their profits. However, if we convert the assets of existing state-owned enterprises into those of groups of enterprises, including enterprises' investments in one another, a problem will arise: Should the new employees of an enterprise be offered the same labor wages and property rights as existing workers? If yes, the resulting system will be hardly distinguishable from the system of ownership by the whole people. Yet if new employees are discriminated against, this will lead to internal divisions within an

enterprise. Not only will it impede reasonable labor circulation, but it will also exclude horizontal capital circulation.

Thus it would seem that the state should be the majority stockholder of state-owned enterprises and control most of their stocks. It should be legally entitled to most of the means of production and, through its representatives on the board of directors, participates in the shaping of major enterprise policies and protects the interests of the state in its capacity as assets owner without interfering in the detailed operations of the enterprise, which should be left in the hands of the managers. Enterprise managers should be allowed to occupy and use means of production in return for a fee. There is one snag: Since the state is not an abstract entity, which agency should hold stocks on its behalf and discharge the functions of capital owner? Should it be a specialized administrative agency? Or a comprehensive functional agency? Or a financial agency operating like an enterprise? Or should we specifically set up a state property agency? This question should be decided with two considerations in mind: prevent administrative interference in enterprise operations, on the one hand, and realistically ensure the interests of the state as assets owner, on the other. It awaits more research on the theoretical level and more experimentation on the practical level.

2. About Establishing and Furthering the Socialist Market System

It is one of the three major reform tasks in the Seventh 5-Year Plan to further develop the socialist commodity market and gradually perfect the market system. This is also basic and indispensable to developing a commodity economy. The market defines the commodity economy. Lenin said, "Wherever there are social division of labor and commodity production, there is market." (Footnote 9) ("Collected Works of Lenin," chapter 1, p 83) The market grows in response to expanding commodity production and exchange and, in turn, stimulates the development of commodity monetary relations.

The development of our understanding of the theory of socialist commodity relations and market system broadly falls into three stages. At the beginning, only consumer goods among social products were recognized as commodities. The law of value only "regulated" the exchange of consumer goods; it merely influenced production and its function was nothing more than accounting. Hence the market was perceived as being confined to the exchange of consumer goods. Certainly beginning in the mid-1950's, some members of the theoretical community in China were already penning articles proving that means of production are also commodities, a point of view that failed to prevail for a long time. During the second stage, the intrinsic attributes of the socialist economy were used to demonstrate that commodity production and exchange are present in a socialist economy. It was affirmed that commodities include not only means of consumption, but also means of production and that the law of value regulates the production and exchange of means of production as well that of means of consumption. The proposal was thus made to develop and improve a commodity market. During this stage, some comrades still clung to the notion that means of production are not commodities. Nevertheless, as economic reform intensified, as the double pricing of means of production appeared, and as their commodity attribute became more and more conspicuous,

most theoretical workers reached the consensus that "means of production are commodities." During the third stage, after it was made clear that the socialist economy is a planned commodity economy, the idea arose of a socialist unified market. It is believed that the market operates not only in the production and exchange of means of production and means of exchange, but also in the exchange of capital, labor, technology, and information services. In other words, if it is to be a unified market, the socialist market should include a market for these production elements as well as the commodity market. This idea is still being discussed and examined at present.

Why must we establish and perfect a socialist market system in order to build a socialist commodity economy? First, from the perspective of the unity of economic operations, if we organize the production and exchange of products in accordance with the principles of a commodity economy while allocating capital, labor, technology, information, and other production elements vertically in accordance with a plan, then the autonomy of enterprises in determining the input of production elements will be sharply curtailed and two independent regulatory systems will appear. In one system, we find a commodity market subject to market regulation. In the other, production elements are distributed in accordance with a plan. This fragmented arrangement severs the intrinsic linkage between commodity production and the circulation of production elements. Also, in a developed commodity economy, the direct distribution of production elements is not conducive to the effective allocation of resources, as borne out by both domestic and foreign experiences. It is true that under socialism some production elements are not commodities in the full sense of the word. Still we can apply the commodity form and determine the movements of production elements by making use of market mechanisms and in accordance with price changes. That way we can bring about optimal resource allocation. In short, the formation of a market system will do much to promote the coordinated operation of the economy, the effective allocation of resources, the flexible adjustment of the interest structure and hence the stable growth of the socialist economy.

Below we concentrate on some points relating to the theoretical understanding of markets for production elements such as capital, labor, and land.

Establishing a fund (financial) market. As the restructuring of the economic system takes hold and the financial autonomy of enterprises expands, enterprises find they have increasing funds at their disposal and both urban and rural residents report rising earnings and discretionary incomes. At the same time, there has been a corresponding drop in funds in the national treasury. It has become impossible to rely solely on the vertical flow of government appropriations to meet the huge capital requirements of modernization. A public demand has emerged for opening up a fund market to facilitate the raising and utilization of social funds. Naturally the development of horizontal interregional and inter-sector economic cooperation has also resulted in the horizontal circulation of capital. This momentum cannot be checked. Yet people still fail to see eye to eye on the practical specifics of opening a fund market.

(1) Should multiple fund-raising channels be allowed to coexist? What should be the dominant channel?

Several fund-raising channels exist in the fund market today: the national banking system (including rural credit cooperatives and miscellaneous investment companies and insurance companies); the many ways of raising capital in society, notably fund-raising by enterprises; inter-enterprise commercial credit; private financial organizations, such as private banks and "associations" in the Wenzhou area. In the wake of the restructuring of the economic system and the development of a commodity economy, a range of financial organizations outside the national banking system has experienced a spurt of growth. The private fund market has been exceptionally active since last year when credit was tightened. In view of this, some comrades believe that the way to develop the fund market is to expand the scope of business of banks and entrust to them the responsibility of organizing horizontal fund circulation. Suitable restrictions should be imposed on all private fund-raising channels to avoid haphazard growth and prevent private financial institutions and the state banking system from scrambling for deposits in order to preserve the effectiveness of the national bank as a macroeconomic regulatory apparatus. Since a bank is a high-profit unit that deals in currency transactions, the establishment of private financial organizations should not be allowed. On the other hand, some comrades believe that the fund market should accommodate a plurality of economic forms, that the central bank should treat state-owned, collective, and other private financial institutions equally, and that it should encourage all sorts of financial organizations to grow in the midst of competition even as it steps up supervision. We should make use of the competition between different fund-raising channels to spur the national banking system to reform itself, take up a leading role, and gradually achieve the commercialization of specialized banks.

Judging from the present situation, the presence of several fund-raising channels satisfies the demand of the coexistence of multiple economic forms under socialism. Instead of simply curbing their growth by administrative fiat, we should speed up the reform of the financial system, strengthen the role of the central bank, exploit the deposit reserve system imaginatively and effectively, and adopt equal measures to bring about a floating exchange rate system step by step. That way we will inject additional vitality into banks and provide fund-raising in society, commercial credit, and private credit an opportunity to grow healthily to meet the needs of the development of a commodity economy.

(2) Choosing Fund-Raising Methods

Among the major methods of raising funds are deposit-taking and lending by banks, commercial notes, bonds, and the issue and trading of stocks. The fund market can be divided into short-term fund market (that is, money market) and long-term fund market (or capital market), depending on the kind of method used. At present bank credit is the leading fund-raising tool, the issue of stocks and bonds is still in its infancy, and stock trading has not even appeared. Based on the history of financial markets, both Chinese and foreign scholars have proposed that we establish a short-term fund market first and a long-term fund market later. When the time comes for the establishment of the latter, we should first concentrate on the issue of stocks and bonds, followed by their circulation. These suggestions are definitely worthy of our

consideration. We should develop all manner of tools to raise funds and make correct choices in light of China's concrete situation.

A more controversial issue is the labor market.

The most inflexible part of China's traditional economic system is the labor and personnel system. Labor and employment have always been centrally allocated and distributed; workers had no freedom to choose their jobs and enterprises had no power to hire and dismiss workers. Basically speaking, labor circulation was nonexistent and labor productivity was depressed. Compared to the Soviet Union and most Eastern European nations, China's "iron rice bowl" and its habit of "eating out of the common pot" were much more serious problems. Hence the need was imperative to reform the labor management system by introducing market mechanisms into the labor and employment arena and promoting the reasonable circulation of labor. But there is no consensus on this matter. One point of view holds that the labor market does not and should not exist under socialism and that neither the freedom of an enterprise or worker to choose one another nor the rational circulation of labor can be described as a market. According to another point of view, opening up the labor market is an inevitable corollary of any drive to reform the centralized labor system, an essential aspect of perfecting a socialist market system, and an objective requirement for the development of a planned socialist commodity economy. What these two schools of thought disagree most sharply is whether labor has commodity attributes under socialism.

To many comrades, it is inappropriate to describe labor as a commodity under socialism in most circumstances. Their line of reasoning is that workers in a socialist society are the joint owners of publicly owned means of production. Unlike their counterparts in a capitalist society where property ownership is severed from labor, workers in a socialist society as a rule do not sell their labor to properly owners who profit by others' toil. Even if labor is owned or partly owned by individuals, labor is still not a commodity. Nor can labor be bought and sold. Because socialist wages are not prices for labor, they do not change as labor supply and demand changes. What wages do embody is the relations of distribution according to work. Thus the non-existence of a labor market under socialism is more than a semantic point. It reflects the absence of labor prices and the fact that labor is not a commodity. Yet the fact that socialism usually eliminates the buying and selling of labor between workers and owners does not mean that labor cannot be mobile. In the Soviet Union and Eastern Europe, workers can circulate relatively freely with few restrictions. But theoretically labor is not a commodity even in those nations, which, nevertheless, does not preclude its market allocation. What this means is that although labor is not a commodity, it can be distributed and circulated in forms and methods appropriate to a commodity.

Other comrades propose that we come right out by admitting that in a socialist economy labor is also a commodity, arguing that this will not change the socialist nature of labor and that it will not be the equivalent of wage labor under capitalism. As a commodity, labor has a twofold meaning. First, only when it is exchanged in return for wages can labor be integrated with means of production. Under socialism, labor's integration into the production process is also effected through exchanges between workers and those who own or use

means of production. Second, in a socialist society where labor remains the individual's means of livelihood, the personal ownership of labor is the basic reason why labor is a commodity. A worker has control over his own labor and can demand compensation for it. The essence of capitalist wage labor is not that labor is a commodity but that means of production are the private property of capitalists and that the surplus value created by labor all winds up in the pockets of capitalists. While labor is a commodity under socialism, the value it creates, except for that portion used to compensate labor, is all owned by society and ultimately becomes the property of the worker himself. Consequently, the nature of socialist labor is not altered by the fact that labor is a commodity.

A heated debate is currently raging in the theoretical community about whether or not labor has commodity attributes. Although the debate has yet to run its course, it presents no obstacle to our effort to reform the labor and personnel system during the Seventh 5-Year Plan, such as by broadening the labor contract and appointment systems and gradually setting up a social insurance system, in order to expedite rational labor circulation.

The commercialization of urban real estate is also a crucial aspect of perfecting the market system. Land is a key production element and housing is the most basic of daily consumer goods. For many years, though, urban land was given away free of charge while housing has become a welfare item, leading to tremendous waste and numerous problems.

Today a consensus has largely been reached in theory on the commercialization of housing. What remains to be worked out is the method of implementation. On the other hand, the commercialization and management of land is still a very controversial issue.

The use of land free of charge not only lowers the effectiveness with which urban land resources are used and deprives the national coffers of a major source of revenues, but also produces wide disparities between the nonoperating expenses of different enterprises in different areas. Many units and individuals have profited handsomely and illegally from the transfers of idle land. The improper use of choice land, the under-utilization of large pieces of land, the illegal occupation, leasing, and transfer of land, and the "departmentalization" of land—all have become widespread problems. Many comrades in the theoretical community think that the free use of land is tantamount to the state giving up its land ownership, which does nothing to help the effective utilization of urban land. To solve urban land problems, we must make those who use state land pay for it and manage land as a commodity. This line of thinking means essentially two things. (1) To realize its land proprietorship, the state should impose an urban land fee and design a schedule of fees for different localities. (2) The transfer of land use rights should be allowed. The income from such a transfer should go to the transferer, minus a portion to be paid to the state as income tax. This will encourage the mutual transfer of land use rights and promote land utilization.

Still opinions differ regarding the commercialization and management of land. The point at issue is this: Is land a commodity? Is land a product of labor?

Does it have value? One group asserts that land is a commodity, that it embodies human labor, and that it has value. People in this group support the proposition that land be managed like a commodity. Another group suggests that we differentiate between land, which exists in nature, and human investment in land through development and transformation. Land per se is not a product of labor, does not have value, and therefore is not a commodity. Those who think along this line can in turn be divided into two camps. One camp argues that although land is intrinsically not a commodity, we may apply the laws of a commodity economy and commodity principles to land management. The other camp contends that a non-commodity cannot be commercialized. But even this camp recognizes land as an object for trade which the state can lease or develop. Yet it stops short of calling it land commercialization because, it claims, the rents the state collects on leased land are not compensation for land value (since the land itself has no value) and constitute no exchange of equal values. They are simply income derived from land ownership. As for trading and developing land, although the land rent and land use tax include compensation for development, they do not amount to compensation for land value itself. Instead they are a reasonable profit and represent a way of recouping the capital spent on land development. Therefore what we have here is the commercialization of capital spent on land, not the commercialization of land itself. It seems that whatever his particular opinion, everybody basically agrees that people should pay for the use of urban land and that land should be an object of trade to be managed in accordance with the laws of a commodity economy.

3. The Transition from A Dual Economic Structure to a Unified Economic Structure

The so-called "dual economic structure" comes from the theoretical analyses by contemporary developmental economists of the characteristics of economic growth of developing nations. According to their analyses, many developing nations have rapidly built up modern urban industries, on the one hand, and retained a natural economy in the vast countryside, on the other. Modern industry exists side by side with a backward agriculture, while a flood of rural residents pours into cities, resulting in high unemployment and a host of acute conflicts such as the rural-urban schism and industry-agriculture competition. China, too, has a dual economic structure in which a backward agriculture coexists with modern industry. To effect the transition from a dual economic structure to a unified economy, that is, the modern economic structure, is a most critical issue in the development of a commodity economy in China and lies at the very heart of modernization in this country. All the more conscientiously therefore should we learn how to accelerate this transition with China's characteristics as our basic premise.

Socialist nations usually copy the Soviet model when they try to switch from the dual to the unified economic structure. Under the Soviet model, a nation first squeezes from agriculture the capital necessary for urban and industrial development. When urbanization and industrialization get under way, it then seeks to improve the intensiveness of agriculture and achieve agricultural modernization by offering financial subsidies and technical assistance to agriculture and by absorbing rural labor force. Although it caused the Soviet

peasantry a good deal of hardships, the Soviet model succeeded quite remarkably in bringing about the transition. The Soviet rural labor force accounted for 14 percent of the nation's total labor force in 1980, down from 42 percent in 1960. In the same period, urban population rose from 44 to 63 percent of the national total.

But this model has not worked in China. Because of its massive rural population and the poor results of industrial investment caused by economic setbacks since 1958, urban industrialization failed to provide jobs for the natural increase in population, let alone rural migrants. Accordingly China had no choice but to adopt measures even more stringent than those in the Soviet Union to insulate the cities from the countryside. There was strict residence registration control, purchasing and marketing were centralized, and rationing was imposed, which prevented the influx of rural residents into cities. In the 26-year period from 1952 to 1978, rural population dipped from 87.5 to 82.1 percent of the national total, for an average annual decline rate of just 0.25 percent. The decline of the agricultural labor force as a share of the nation's total was also marginal, from 31.7 to 31.5 percent, as was that of the agricultural labor force as a share of social labor force, from 88 to 76.1 percent. Comrades who study developmental theories point out that it is unusual among developing nations for the dual economic structure to last as long as it has in China. In large measure it explains why the development of a rural commodity economy has been ignored and why the countryside languished for many years.

Since the 3d Plenary Session of the 11th CPC Central Committee, not only has the extensive Chinese countryside broken out of the straitjacket of the traditional ownership system, but the old prohibition against peasants entering commerce, business, or sideline industry has also been lifted. This gave momentum to the change from natural economy to a commodity economy. In 1985 commodities constituted 63.9 percent of rural industrial and agricultural output. (In late 1978, only about one third of agricultural byproducts were commodities.) The countryside has taken on a new look and rural modernization is off to a good start. Reviewing this experience, comrades in the theoretical community have examined three major issues pertaining to the transformation from a dual economic structure to a unified one.

(1) The relations between reforming the rural economic structure and improving social labor productivity. Owing to China's enormous rural population, its huge potential surplus labor (at present as many as 100 million agricultural workers need to find jobs outside agriculture), and insufficient capital, China had no choice but to take the labor-intensive low-investment tack. The result is a tendency toward setting up small inefficient enterprises applying crude technology. Some comrades are concerned that such a tendency contradicts our goals of giving up the pursuit of simple quantitative growth in favor of economic results and of switching from extensive expanded reproduction to intensive expanded reproduction. But there are also comrades who believe that if we go after these goals, some sectors or industries will experience a decline in productivity. Be that as it may, when we take into account the existing labor productivity in agriculture, social labor productivity will still register a gain overall. As for the level of technology to be used by a particular sector, it is difficult to speculate in

a vacuum. It should be determined by competition on the international and domestic markets.

(2) Should the policy of urban-rural segregation be continued? Most comrades believe that migration to cities in the course of modernization will lead to population explosion in the major urban centers. Since China has a mammoth rural population, unchecked migration will push cities beyond the breaking point. In the future, therefore, we should try to find jobs for agricultural workers and steer them into nonagricultural labor where they are located, instead of encouraging them to move to cities. Some comrades also believe that even as we emphasize the local absorption of agricultural labor, we should see that the drift of population to the cities in the course of modernization represents an unstoppable trend. At present China cannot but keep rural residents out of cities. When circumstances permit, it should relax restrictions on rural migration in an appropriate way and allow peasants to enter the urban tertiary industry. Economic tools should be used more extensively to regulate the flow of population and labor between urban and rural areas.

(3) Our understanding of the development of town and township enterprises. For years many people have regarded old commune- and brigade-run enterprises and, later, township and town enterprises, as a supplementary economy, a mere adjunct to agriculture, and wanted to limit it to something that does nothing more than filling gaps in our industrial lineup, using local resources and human power, and serving agriculture. They were worried that once mature, township and town enterprises would compete with large state-owned enterprises for raw materials and markets. Because of this fear, township and town enterprises have been subject to periodic curbs. Only recently when the reform of the rural economic structure and the entire national economic structure became an issue did people gradually realize the tremendous historic role that township and town enterprises play by absorbing surplus rural labor and channelling it into nonagricultural employment. In township and town enterprises lie our hope for transforming the natural economy in the countryside into a commodity one and changing the rural look.

The development of township and town enterprises is inseparable from that of a commodity economy. They usually operate in the market outside the sphere of planning. Because the countryside has long been hemmed in by the natural economy and peasants are inexperienced in commodity production, haphazardness and chaos have necessarily characterized their growth. To overcome these problems, we must incorporate the enterprises into the larger national economic framework, guide their development, and offer them information and consulting services. We should regulate their growth with economic tools, not tie their hands. This is an important aspect of developing a planned commodity economy.

We should be aware that as township and town enterprises make further gains and the dual economic structure gives way to a unified economy, a huge amount of energy will be released from the countryside, significantly pushing up peasant earnings. While the concern in the past was to meet basic needs, in the future everybody will gradually have some discretionary income. This portends profound changes affecting consumption supply and demand in a market

of 800 million peasants. The production of and investment in consumption goods will be fueled, while consumption goods will come under a good deal of pressure, resulting in fresh problems for our effort to achieve a macroeconomic balance. Moreover, as the structure of consumption demand changes in the wake of rising incomes and consumption standards, the industrial structure will also be reshaped continuously. We should pay early attention to all this, make realistic projections, and come up with suitable strategies in order to maintain a rough balance between supply and demand and keep the structure on an even keel amid the great changes wrought by the commercialization and modernization of the national economy.

4. Create a Buyers' Market With Supply Slightly Exceeding Demand in Order to Provide a Favorable Environment for Reform and the Development of a Commodity Economy

For a long time the supply of materials and commodities in China has failed to keep pace with the growth of purchasing power, often creating an excess of demand over supply and a market dominated by the seller, in other words, the so-called sellers' market. This is the consequence of the traditional economic development strategy which pursued quantitative increases exclusively, that is, which tried to maximize the growth of output value. It is also the product of the traditional economic system which rejected commodity monetary relations and encouraged "eating out of the common pot." Persistent supply shortages and the longstanding sellers' market, in turn, have worked to consolidate the traditional economic system because an economy of scarcity often demands highly centralized administration and management and unified allocation and distribution. This is inconsistent with the development of a commodity economy and militates against the successful conduct of structural economic reform, which explains why many Chinese and foreign economists believe that China must work hard to create a situation in which total supply slightly exceeds total demand and bring about a limited buyers' market so as to provide a favorable economic environment for the restructuring of the economic system and the development of a commodity economy.

Guided by the resolutions of the two 3d plenary sessions and a series of policies by the CPC Central Committee since 1978, China's economic life has been experiencing profound multifaceted changes and its economic development strategy and economic system are in the process of changing from the old model to the new. In the early days of the Sixth 5-Year Plan, owing to rural reform, soaring agricultural output, and the restraint of total social demand resulting from our conscientious effort to implement adjustment policies, shortages began to ease throughout the economy and there even appeared a positive trend toward a buyers' market in some sectors. However, because of the presence of the dual economic structure during the transitional period and frequent relapses into the old habit of pursuing fast growth in output value, investment fever and the desire for quantitative expansion persisted. Meanwhile, the traditional curbs on consumption were lifted, while macroeconomic management reform failed to keep pace with microeconomic invigoration. As a result the buyers' market, which appeared several years ago, waxed and waned and has never been put on a firm footing. From the last quarter of 1984 to 1985, in particular, as investments and total consumption

demand jumped and economic growth shot up, the national economy became overheated and the good environment required by reform deteriorated. Over the past few years China was forced to spend enormous amounts of energy to stabilize the economy and improve the environment, thus slowing down the pace of reform. Its hard work last year and this year has slowly cooled the overheated economy, but the over-distribution of the national economy in which total demand exceeds total supply continues. Therefore, the most basic mission proposed by the Seventh 5-Year Plan is to further nurture a good environment for the restructuring of the economic system and exert ourselves to maintain a fundamental balance between total social demand and total supply in order to make reform more successful.

To many comrades in the theoretical community, the key to the drive to maintain a basic balance between total supply and total demand put forward by the Seventh 5-Year Plan is to solve the over-distribution of the national income and achieve a surplus, which would give us some room to maneuver. Some economists in Eastern Europe also propose that as a country reforms its economy, it should maintain a certain reserve of funds, materials, and foreign exchange with which to adjust interests in the course of reform and meet other unforeseen needs. This balance-cum-reserve was exactly what Marx had in mind when he said in a discussion of the reproduction of fixed assets in chapter two of "Das Kapital" that production in a socialist society should exceed direct demand each year. Social production in excess of direct need and balance with surplus manifest themselves as a limited buyers' market. Certainly such a basic balance is difficult to bring about, but we should make it our clear objective and work hard at it. Only under this kind of basic balance and in this kind of market will sellers compete among themselves and producers and operators be forced and motivated to improve technology, operations, and service attitudes. When the opposite set of conditions obtain, ie., in a sellers' market, materials are scarce, and since their products are as sure to find buyers as "princesses to find husbands," enterprises have no incentives to improve technology, operations, and service attitudes at all. Moreover, at a time when there is a dire need of capital, materials, and foreign exchange, etc., the need of the adjustment of interest relations for them and other unforeseen needs will not be readily met and reform will be impeded as a result.

There are also some comrades who oppose the proposal to create a limited sellers' market where supply slightly exceeds demand. For over 3 decades, the Soviet Union subscribed to the theory, which later spread to China, that the growth of demand always exceeds the growth of supply in socialist nations and that this demonstrates the superiority of socialism. This is tantamount to saying that an economy of scarcity, material shortages, and rationing all manifest the superiority of socialism. While there may be circumstances in the past which justified it, this theory now appears ludicrous. Yet even today some people still believe that the socialist system cannot solve the shortage problem and that a buyers' market is just a pipe dream. But if the socialist system cannot get rid of shortages, what then do we need it for? I always think there is a question of confidence in the socialist system here. Needless to say, the overwhelming majority of comrades believe that shortages are not inherent in socialism but are the product of a rigid economic system

and the traditional development strategy and can be resolved by restructuring the economic system and altering the development strategy.

Yet another opinion holds that we need to adopt mildly inflationary policies to stimulate economic growth in order to keep the economy expanding at a certain pace and achieve modernization. And an expanding money supply and moderate price increases are inevitable if we are to develop a commodity economy and restructure the economic system. Over the past few years some people have incessantly preached that China should run up a small budget deficit and generate a little inflation to spur economic growth. To do so is effectively to transplant Keynesian economics to China. People who think along this line fail to see the differences between China and many developed Western nations and some developing countries. In those economies in the West where effective demand often falls short, deficit budgeting and inflation can jack up effective demand and are often used as anti-recession measures to stave off an economic crisis or revive a depressed economy. When they are caught in an economic downturn, non-socialist developing nations also turn to inflation to bring about an economic rebound. A socialist economy, on the other hand, is in a constantly stimulated state. In a large country like China where demand outpaces supply, what holds back growth is primarily insufficient resources, not insufficient demand. An excessive money supply can only exacerbate economic strains and complicate the transition of the longstanding sellers' market to a buyers' market, a development unfavorable to the formation of an economic environment where market mechanisms can really come into their own. Certainly the development of a commodity economy requires the money supply to expand at a certain rate. Also unavoidable are price increases of a certain order in the course of reform as we adjust the irrational price structure. But we should rein them in closely and move cautiously to avoid overly unsettling fluctuations. Price increases not caused by adjustments in the price structure should be controlled as much as possible. Price hikes simply resulting from too much money floating around should be avoided. Every effort must be made to create a favorable environment for reform.

Yet another view opposed to the establishment of a buyers' market claims that a relaxed environment where supply slightly exceeds demand can only be a result of reform, not its prerequisite. It is argued that "it is currently impossible for supply to exceed demand slightly" and that all we can do at the moment is to "adapt to the situation where demand slightly exceeds supply and go in for socialist construction."

Needless to say, only in the more developed commodity economies in the world today can we find fairly stable buyers' markets. In a socialist economy, such a market will not be solidly established until after we thoroughly restructure the traditional economic system and uproot the structural factors that lead to such chronic maladies as the pursuit of quantitative expansion and investment fever. Indeed a buyers' market is a result of reform. But we cannot just sit idly and wait for a relaxed environment to appear before going ahead with reform. We should notice that by gradually altering the development strategy, loosening the economic plan appropriately, and pushing ahead with economic reform, we are not incapable of generating the momentum for a certain kind of buyers' market. In fact, just such a momentum appeared in the early days of

the Sixth 5-Year Plan. Today we too can further expand the economy by intensifying and improving macroeconomic control, which will help us realize our ambitious reform plan in the next 2 years. Because China's economic development strategy and economic system are in the transitional stage between the old and the new, the old model often works to check the momentum of the development of a buyers' market and worsen the environment suitable for reform. This should prompt us all the more sober-mindedly and conscientiously to use every tool provided by the new system to control the increase in investments and consumption and strive to create the momentum toward a limited buyers' market. That way we can successfully carry out economic reform and construction and speed up the demise of the old system and the formation of the new. When the new system takes shape, we will fashion self-control regulatory mechanisms to restrain demand and allow the buyers' market to slowly take root and grow, which will facilitate the ultimate establishment of a new economic system and new development strategy. If we follow a different tack, that is, if we conclude that it is impossible at the moment to make supply slightly larger than demand because of the difficulties of achieving a buyers' market and hence content ourselves with learning to adapt to the excess of demand over supply (as a matter of fact we have adjusted to just such a situation for several decades and do not really have to learn to live with it), we will consciously or unconsciously give up the struggle to create a buyers' market and end up relaxing our control and management of total demand. When that happens, we will find it very hard to extricate ourselves from the predicament to which we have long been confined, namely, a sellers' market where the national income is over-distributed. We will then be unable to create a good economic climate for reform, thus slowing down or hindering reform. We must try our best to avoid this.

Although it proposed the need for restructuring the economic system as early as 1979, the CPC Central Committee decided to make economic adjustment its top priority and relegated reform to a secondary position in view of the serious proportional dislocations in the national economy at the time. It demanded that reform be subordinate to and contribute to adjustment. Subsequently, the prospects for a virtuous cycle-type of economic growth brightened and the rudiments of a favorable economic environment appeared. Only then did the Central Committee put out the "Decision concerning the Restructuring of the Economic System" in October 1984. Following the triumphant conclusion of the Sixth 5-Year Plan, social economic conditions for total reform ripened. Reform was then upgraded as a major task and became the country's top priority in the Seventh 5-Year Plan. Accordingly, we must pay even closer attention to preserving a good environment for reform and the development of a commodity economy. When reform conflicts with construction, construction plans must give way to reform. On no account should we relax our control on demand in order to chalk up a fast growth rate. There has been a temporary drop in the economic growth rate this year compared to sharp increases earlier. We should stay the course and continue to adopt correct policies and measures to create a sound environment for structural reform and bring about a prosperous and robust socialist commodity economy.

12581

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PROVINCIAL AFFAIRS

SUCCESS, FAILURE OF SHENYANG'S REFORM REVIEWED

Beijing BAN YUE TAN [SEMI-MONTHLY TALKS] in Chinese No 8, 10 Aug 86 pp 10-13

[Article by Zhao Wenquan [6392 2429 3123] and He Daxin [0149 1129 2450]:
"Create a Free, Open World for Reform--What We Heard and Saw in Shenyang"]

[Text] As soon as we set foot in Shenyang, we found ourselves in an atmosphere heavy with reform. Strolling the streets, we espied eye-catching slogans on giant billboards. But were these slogans mere slogans? No. In Shenyang, people are boldly exploring reform of the old economic administrative system, have done an outstanding job in invigorating large enterprises and made many achievements in operating "experimental plots" (namely, conducting pilot tests of leasing, stock and bankruptcy systems in some state-run and collective enterprises). Successful reformers feel they have proved themselves, while the people who have suffered setbacks in reform have not been drowned in torrents of criticism. Several leaders of large and medium-sized enterprises told us that they had never felt more at ease in their jobs. During an inspection tour in Shenyang, economists Yu Guangyuan [0060 0342 6678] and Jiang Yiwei [5592 0001 5517] praised the city and claimed they felt they had arrived in a new world, one that is steeped in reform and that boasts a new environment created by reform.

Rising in spirals and advancing in waves is the general rule of development of things. Shenyang's reform is no exception. The city achieved its excellent reform environment by repeatedly overcoming obstacles during its advance.

Shenyang started its reform late but boasts many new methods and has made big strides forward. In the past few years, the city has done an outstanding job in implementing the plant-chief responsibility system, developing horizontal economic links and establishing new market systems. However, as the city's reform has progressed, contradictions have grown and reform work has become more difficult, so "confusion has arisen and the pace slowed a bit." Some units are hanging back, and some people even have doubts about reform, thus giving rise to the "vacillation syndrome."

Early this year, when the move was afoot to reject the plant-chief responsibility system, an industrial bureau issued an order officially taking back from mid-level enterprise cadres the authority to make appointments and dismissals. Hearing this, some plant chiefs feared they would be criticized

for refusing to accept the party's leadership and offered to give up their authority "on their own." Some departments misinterpreted the slogan "common prosperity" and flagrantly interfered with enterprise efforts to increase employee income differentials, mistakenly treated a number of enterprise adaptations as unhealthy tendencies and even forbade enterprises to honor the economic contracts they had signed. Vacillation has dampened the enthusiasm of enterprise employees and cadres.

The appearance of this "vacillation syndrome" has attracted much attention from Shenyang's reform command centers--the city's CPC Committee and government, which sent people down to survey 50-some enterprises engaged in experimental reforms and concluded on the basis of these surveys that reform had made the economic results and employee attitudes of these enterprises generally better than those of ordinary enterprises and thus that the policy of reform is correct. Zhang Guoguang [1728 0948 0342], deputy secretary of the Shenyang CPC Committee, went to the Shenyang Heavy-Machinery Plant to hold an on-the-spot meeting just as the manager of this enterprise was preparing to give up his authority. At the meeting, Zhang reiterated the stand of the city's CPC Committee, stating, "Mid-level cadres' power to make appointments and dismissals cannot be changed, and the reform must not be thrown into reverse." These remarks have reassured the 233 enterprises implementing the plant-chief responsibility system.

The appearance of "vacillation syndrome" indicates that comrades of some of our departments have failed to adjust to the needs of our era for a change from the old to a new economic administrative system. Li Changchun [2621 7022 2504], then secretary of the Shenyang CPC Committee, provided the following analysis of the syndrome. (1) Traditional ideas and force of habit are still at work. Old fashioned cadres will follow along when reform progresses rapidly but will start looking at things the old way and begin backtracking as soon as reform shows any sign of trouble. (2) Old fashioned cadres lack experience in reform, but more importantly, they lack independent thinking and a pioneering and enterprising spirit, are not practical, are copy cats and insist on arbitrary uniformity in everything they do. (3) Old fashioned cadres fail to evaluate reform in accordance with the watchword "practice is the sole criterion for determining truth" and thus are afraid to uphold what is right and oppose what is wrong. In sum, the general principle of reform has not really taken root in the minds of some comrades, and thus these comrades lack resolve in their actions.

Once this "diagnosis" was made, the Shenyang CPC Committee and government began to treat the malady. Some people misconstrued errors in reform as unhealthy tendencies and attributed economic crimes to the reform, so the city's CPC Committee and government first set about restoring the reputation of the reform. In early March, the committee and government held a meeting of over 1,500 plant chiefs to analyze the situation. Then in May, they convened the Shenyang Work Conference on Economic Restructuring, at which they drew a clear distinction, in terms of policy, between reform errors and unhealthy tendencies and drew up 20 rules and regulations promoting continued reform. These rules clearly stipulate that when errors are committed during reform, the errors, so long as they do not involve attempts to seek personal gain or to line one's pockets, should be corrected by improving the reform; that

economic-responsibility agreements and work contracts signed between supervising departments and enterprises should be strictly honored; that no one will be punished for holding business receptions and dinners so long as these events are not extravagant and wasteful and are not directed toward personal gain; that reasonable and properly administered revenues that enterprises earn from state-authorized S & T and management consulting and S & T royalties may be used to remunerate relevant personnel; and managerial cadres at all levels who creatively implement the policies of higher authorities and who make reasonable policy adaptations should not be charged with abuse of power.

The Shenyang CPC Committee and government also announced in newspapers that all the reforms adopted by city to invigorate enterprises remain in effect, that no department may divert or take back any authority without approval, and that policies should not be changed back and forth. The committee and government reiterated that no department may restrict or take back enterprise authority to create internal organs, distribute wages and bonuses, use funds and develop horizontal links. The city government also sorted through all the legal pronouncements issued over the last 30-plus years and decided in May to abolish 819 old rules and regulations that are unfavorable to reform so as to clear the way for reform.

Naturally, it is important that we liberalize things and open the way for reform, but it is even more crucial that we create a good environment in which reform leaders can give full play to their talents. Therefore, Shenyang leaders believe we must provide clear support and solid protection for reform leaders.

Not long ago, employees of the Shenyang Clock, Watch, Eyeglass and Computer Co, which implemented a leasing system, appealed to city authorities, accusing enterprise lessor Shang Shicai [1424 1102 2088] of "exploiting" employees because he received a "bonus" due to his membership in the Communist Party. After a thorough investigation, the Shenyang CPC Committee concluded that the great increase in the enterprise's economic results since the company went into leasing last year was a result of the joint efforts of Shang and all other employees, that, as a lessor, Shang had assumed risks and worked hard, and that the "bonus" he received pursuant to contract was in full accord with state policy. Departments at higher levels sent cadres to conduct ideological work among the employees of this company. As a result, the employees who used to complain left and right changed their views and apologized to Shang. Only then was Shang encouraged and enthused.

Liu Xiangrong [0491 4161 2837], director of the Shenyang Sheet Metal Plant, is a reform leader who is known far and wide. When his plant's economic results declined last year, Liu was subjected to a storm of ridicule. Some people said they would surely starve if they followed Liu in carrying out reforms. But according to the investigation conducted by the Economic Work Department of the Shenyang CPC Committee, the decline in the plant's economic results was due primarily to the rise in steel prices, not to reform, and had it not been for Liu's reforms the enterprise actually would have suffered even more from the steel-price rise. The Shenyang CPC Committee expressed its support for Liu's efforts to continue the reform, and the Shenyang Metallurgical Bureau

held an on-the-spot meeting in the plant and called on all enterprises subordinate to the bureau to emulate the plant's spirit of exploring and advancing amidst difficulty. The Shenyang CPC Committee recently called party committees at all levels to earnestly maintain cadre, mass and, especially, reform leaders' enthusiasm for reform.

During the interview, Wu Disheng [2976 6611 3932], mayor of Shenyang, said that the city was afflicted by an abnormal phenomenon: "Industrious oxen pull the cart yet get whipped, while lazy oxen eat grass and bask in the sun." People who make achievements in reform have to work hard and withstand all kinds of pressure, while people who are not enthusiastic about reform bear no risks and suffer no criticism. This is really unfair. What we must do is to change this situation, create a normal environment in which errors in reform are forgiven and refusal to reform is prohibited, and provide a free and open world for reformers.

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FOREIGN TRADE, INVESTMENT

U.S. 'ANTIDUMPING' LAWS, COUNTERMEASURES DETAILED

Beijing GUOJI MAOYI WENTI [INTERNATIONAL TRADE JOURNAL] in Chinese No 6, 1986 pp 30-34, 58

[Article by Zhou Guofang [0719 0948 0119]: "Special Provisions of American Anti-Dumping Laws Pertaining To Non-Market Economies and Chinese Countermeasures"]

[Text] With the rapid development of Sino-American trade in recent years, cases have occurred from time to time in which the United States has charged China with the dumping of export goods. Analysis of the special provisions of American anti-dumping laws pertaining to non-market economies (also termed the substitute country rule) and the posting of China's countermeasures holds important practical significance.

1. The Special Regulations and Their Theoretical Basis

According to American anti-dumping laws, dumping means the entry into the American market of products of an exporting country at a price that is lower than a fair price. What is a fair price? American anti-dumping laws have set different presumptive standards for the products of market economy countries and non-market economy countries. For the former a fair price means: (1) the domestic price, (2) the export price to a third country, (3) or the constructed price, i.e., the sum of the cost of producing the goods in the country of origin plus reasonable administration costs, marketing costs, other costs and profit. For the later, a fair price includes other special regulations (hereinafter abbreviated to special regulations), namely: (1) selection of a country having a market economy that has a similar degree of economic development as a substitute country, using the domestic price or the export price or the constructed price of identical or similar products from that country to serve as a "fair price" for goods being from the non-market economy country under investigation. (2) If the foregoing conditions do not exist, then the price of producing identical or similar goods in a market economy country is used as the fair price. (3) If this condition does not exist, then a constructed price is calculated on the basis of consumption of key production elements (including labor, raw materials and energy) in the non-market economy country being investigated. Materials that originate from producers in the country concerned have to be verified to the satisfaction of the anti-dumping authorities. The key production elements in a market economy

economy with a similar degree of economic development are used as the basis for estimating and validating costs of key production elements in a non-market economy. (4) The market price or the constructed price for identical or similar American goods.

The foregoing four standards are used in order of precedence.

In the 1963 hearing of a case involving cement from Poland, the United States Treasury Department rejected from consideration the domestic price in Poland, the export price to a third country or the constructed price on grounds that these prices were not consistent with statutory requirements. According to pertinent legal regulations, only when "sales take place during the regular trade process" can a country's domestic price or its export price serve as a basis for figuring fair price. If a domestic price or an export price do not exist making it necessary to use a constructed price, the costs used in calculations must "have occurred during the regular trade process." This principle originated with a decision made in a 1932 case of J.H. Keteman [phonetic] Company versus the United States. The Customs and Patents Appellate Court asserted that since the domestic price of the goods in this case did not occur "in the normal trade process," a fair price for the goods could not be decided on the basis of domestic sale price.

The so-called "normal trade process" means the process in which free and unrestricted market conditions play a role. Traditional international economic theory holds that the procurement, production and marketing by market economy countries of product raw materials is carried out under regulation of a complete market mechanism and that the market mechanism is best able to apportion resources equitably and effectively and is the economic form that creates social wealth to the greatest extent. For this reason, a product's domestic sale price or export price or constructed price is fair and equitable and thus should serve as the basis for fair price. Conversely, the procurement, production and marketing of raw materials in a non-market economy country are controlled by the state or by state plan with all market conditions losing their regulatory role. By exercising control over the production and marketing of goods, the country realizes its political, diplomatic, economic or military goals; thus, prices and costs of goods from such countries are distorted and naturally cannot serve as a basis for arriving at a fair price. This is the theoretical basis for the United State's special regulations (i.e. substitute country rule) for non-market economy countries.

2. Problems With The Special Regulations and What Is At the Heart of Them

It is common knowledge that bourgeois economists maintain that a non-market economy is an abnormal economic form that runs contrary to orthodox principles. Consequently, they are prejudiced against and discriminate against its policies and laws. Even so, many western scholars hold that the substitute country rule is a remedy of last resort in which numerous problems exist.

1. Confused Conceptions and Muddled Definitions in the Special Regulations

First, let us take up differences in presumptive standards for non-market economies. What is meant by a non-market economy? What are the presumptive standards pertaining to it, the industries affected by the cases, the sectors within those industries that are affected, and the effect on the local economies where those industries are located or on the entire national economy. Neither the "1974 Trade Law" nor the "1979 Trade Agreement Law" relate to this problem. Moreover, looked at in terms of the logic and the context of the 1968 Department of Treasury regulations,¹ which are currently in effect, presumptive problems regarding relevant non-market economies may be analyzed in two steps. First of all, anti-dumping authorities should determine whether a country's entire economy is controlled by the state. If they decide in the affirmative, they must then decide whether state control extends all the way to designated industrial sectors as well as whether the prices and costs for its products can serve as a basis for figuring fair prices. Such a legal interpretation is not the same thing as policy and practice from the authorities in charge, however. In the natural menthol case, the Chinese Export Company asked to enjoy the standards of treatment accorded by the American anti-dumping law to Yugoslavia (use of domestic price as a basis for fair price), which amounted to a request to be regarded as a market economy for the following reasons: (1) The production and sale of natural menthol is, in fact, not controlled by state plan. (2) As a result of reform of the Chinese economic system in recent years, the extent of government control of individual economic sectors varies. (3) The production, marketing and pricing by the Chinese agricultural sector of unimportant agricultural products such as menthol is virtually completely free of state plan control. In its complaint, the United States stressed government control of the entire Chinese economy and that economic reforms of recent years have been relatively limited; thus, China should be regarded as a non-market economy. Unfortunately, the Department of Commerce finally ruled the Chinese products in that case to be in the category of a non-market economy. This means that a preposterous conclusion was reached in this case. To equate the Chinese economy of the present with the former situation is to say that no matter the economic reforms carried out and no matter the introduction of market mechanisms, China and other so-called non-market economy countries cannot bring about a change in the non-market economy presumptive standards.

Second is the problem of the concept of a similar degree of economic development. How can "a similar degree of economic development" be defined in theory? From what angle is it to be judged? This is not a legal concept but rather a rather inaccurate economic concept. Many scholars believe that no matter how much comparison is done, it is unlikely that the true costs and prices of goods in a non-market economy country can be accurately reflected.

The shortcomings in practice are even greater than the theoretical deficiencies. How does one derive price data for a substitute country? Is the substitute country willing to cooperate? How does one go about selecting comparable industrial enterprises? How does one investigate disparities resulting from differences in industrial situations, marketing conditions and the degree of economic development? Since satisfaction of numerous requirements will be determined by imprecise and subjective factors, such a method creates extreme unreliability in practice.

2. Procedures For Carrying Out the Special Regulations are Affected to a Very Great Degree by Political Factors

The anti-dumping law aims to use economic methods (namely the levying of anti-dumping taxes) to prevent and to eliminate unfair market competition so as to protect domestic industry. The rationale for applying the special regulations to non-market economy countries is that these countries seek to attain political goals through restrictions on production and marketing. However, facts show that the organizations in charge themselves use loopholes in these laws and abuse their authority to make offhanded decisions to serve the goals of the American government's foreign policy. During the preliminary hearing of the Chinese menthol case, low level officers in the Department of Commerce maintained that regulations regarding non-market economies did not fit China's economic circumstances or were, at least, not applicable to this case. They were consequently criticized by high level officers who declared that such a decision was unacceptable under present political circumstances.

3. The Special Regulations Seriously Damage the Interests of Non-Market Economy Countries.

For the export goods of market economy countries, it is necessary only to compare the export price to the United States with the domestic price or the export price to a third country to find out exactly the possibility of not being accused of dumping or whether a dumping decision charge can be made. However, non-market economy countries have no way of predicting in advance whether or not they will be accused of dumping the goods that they export to the United States. After legal proceedings are initiated against them for dumping, the Department of Commerce picks a substitute country, the identity of which is not known in advance to the non-market economy country, for calculation of a fair price. Only it does the non-market economy country know for sure whether it has engaged in dumping. As a result, the fate of the export goods of these countries is uncertain. In reality, frequently if the sale price of exports by a non-market economy country is slightly low, suit is brought on suspicion of dumping. Results of most investigations are negative. But once a suit has been brought against a product, it is fairly difficult for it to enter the American market again. Clearly the special regulations are essentially a clever and effective trade protection method.

In addition, the special regulations lack fairness. The special regulations have established the following premises: Production and marketing by non-market economy country firms has never been based on a maximum efficiency formula. At any given time, the fair price for a product from such countries can only be equivalent to the domestic price of a substitute country and not the lowest price for that product in international markets. This amounts to a complete denial of the relative cost advantages of non-market economy countries.

4. The Special Regulations Cause Authorities Concerned To Waste Time and Money on Investigations

Investigation of product dumping by non-market economy countries is much more complex than investigation of product dumping by market economy countries. It

entails not only an investigation of the export product situation in the non-market economy country, but also the comparison of various statistical data and the selection of appropriate enterprises in a substitute country, and finally a complex readjustment of prices. If the substitute country does not cooperate, the problem becomes even more complex. It is difficult to imagine how many such investigations the Department of Commerce would be able to make in a year.

What is at the heart of problems of this kind? The writer believes that the basic rationale can be found in both economics and politics.

In economic terms, dumping is essentially a market economy concept. Anti-dumping laws are formulated on the basis of market economy theory and principles. The special regulations are really a kind of legal formulation designed to use such a formulation to link market economies and non-market economies, i.e., to figure out what the cost of a product should be for any given non-market economy country's industry using the present efficiency in production and administration in a market economy environment. However, facts have demonstrated this legal formulation to be wide of the mark, extremely ill-suited to the situation in and interests of non-market economy countries and unable to regulate and promote effectively economic trade relations between market economy countries and non-market economy countries.

In political terms, the United States government is unwilling to recognize that the governmental, industrial and social actions and decisions of sovereign foreign countries are entirely legal. Unless these countries use American methods to deal with these problems, they will be treated unfairly.

Most American political, commercial and academic circles, as well as the governments of countries concerned, have criticized the special regulations and have made suggestions and plans for their reform. As yet, however, there has been no break with convention; the principles and concepts of market economies are still applied mechanically to non-market economies. The writers believes that a fundamental solution to this problems requires analysis and facing up to the nub of the problem. Then a medicine that fits the illness can be prescribed and fair and equitable methods to solve it proposed and adopted.

China's Countermeasures

The following countermeasures for guarding against and dealing with indictments under the American anti-dumping law are proposed on the basis of the foregoing analysis.

1. Attention to American Economic Decline and Growth

According to American anti-dumping laws, the actual damage imported goods are causing or the danger that they may cause damage to domestic American industry is a necessary condition for making a dumping judgment stick. Thus, by paying attention to economic indicators related to damage, it is possible to judge the possibility of an anti-dumping suit. Pertinent economic indicators are as follows: (1) Rapid growth of imported goods; (2) decline in production and marketing capacity and capacity to use production; (3) rise in unemployment;

(4) decline in profit; (5) a price for imported goods that is lower than the price of identical or similar American goods.

If economic development is good for a certain American industrial sector, there will be no likelihood, or very little likelihood, of an anti-dumping complaint. Conversely, when important economic indicators such as sales volume, use of production capacity and profits decline, the possibility of anti-dumping increases markedly or may lead to litigation. At such times, China's export trade companies should immediately take action, either limiting export quantities or increasing prices appropriately.

2. Checking and Making Timely Adjustments to Export Goods Prices

Survey of substitute country goods prices. In several former anti-dumping cases, Paraguay, Thailand and Indonesia were designated substitute countries for China by the United States Department of Commerce. Generally speaking, since these countries were presumed to be "similar in degree of economic development" to China, there is a certain permanence about their serving as substitute countries for China. China's export companies can check ahead of time on the prices of products concerned in these countries after which they can make comparisons with company prices of export goods for the United States. If China's prices are too low and there happens to be an economic slump period, prices may be raised somewhat to bring them into line with prices in substitute countries.

Survey of American firm goods prices and prices of goods exported to the United States by third countries. During an economic slump, low prices goods naturally become targets of public criticism, and "the first bird to show its head gets fired on." Export companies may regard a large volume of sales at low prices as a way of earning foreign exchange, but insistence on holding down prices to make sales only to be charged with dumping often produces the opposite of the desired effect. When the economy is slack, export companies should raise prices, bringing them into line with prices charged by American firms and by third countries exporting to the United States. Actually, if quality of export goods is superb even though market share declines following a price rise, an increase in the total amount of foreign exchange earnings may result. Therefore, rise in product quality is a means that should not be overlooked in increasing export earnings. Additionally, the opening of new sales markets is also very important. If pressure to raise prices too much seriously impairs sales, consideration may be given to getting out of the American market and shifting to other markets.

On the price issue, if several exports companies in China simultaneously export identical or similar products to the United States, they should be sure to consult with each other and adopt a unified position to guard against price cutting in competition with each other, thereby preventing an outflow of profits and avoiding giving others a pretext for charges of dumping. Otherwise, they may be sued for dumping and lose the entire American market.

Signing of Contracts Containing Elastic Clauses

Long-term fixed price contracts make it impossible to meet changes. A more

desirable method is to write into a business contract in advance clauses permitting price rises or renewed discussions to set prices. Then, should there be any indication of anti-dumping, prices can be raised at once, or new price discussions held, avoiding indictment for dumping. According to the American anti-dumping law, if a foreign firm defendant agrees to raise prices on goods, the anti-dumping investigation may be stopped in mid-course.

How to draft contract clauses that guard against an anti-dumping indictment should be considered by the parties concerned. But as far as Department of Commerce regulations are concerned, a ruling has been made only on an "anti-dumping tax pledge" clause in contracts. That clause provides that if the exporting company pays a temporarily estimated anti-dumping tax, the American importing firm is absolved from responsibility for future payment of an anti-dumping tax. If there is a future suit against the product and a final judgment against it stands, the exporting company's pledge is terminated and the company has to dispose of the pledge goods voluntarily. This formulation is of important significance for non-market economy countries because it is very difficult to forecast whether or not the export of goods will constitute dumping. Even if a suit is filed against the goods, most final judgments are denied. In fact, most suits filed against Chinese exports of goods to the United States have been denied and the cases dismissed. Therefore, China's export companies might consider writing this clause into business contracts, so that if suits are filed against products in the future and a preliminary judgment stands, export sales can continue as before. Without this clause, according to pertinent laws at the time an initial judgment stands, the American importer must pay a temporarily estimated anti-dumping tax and only then may imports continue. However, at such times, importers usually do not want to continue importing out of fear that a final judgment will stand and they will be liable for payment of an anti-dumping tax. Of course, in considering use of this method, Chinese exporting companies should analyze fully the situation in all regards and, before proceeding, they should believe or at least be relatively certain that even should a suit be lodged against export goods the final judgment will not stand. Otherwise, the more export goods sold, the greater will be their losses.

4. Collection of Data and Doing A Good Job of Citing Proof

Systematic collecting and collating of pertinent data holds an extremely important position in dealing with anti-dumping litigation. In determining whether a country has a market economy or a non-market economy, the Department of Commerce has considerable latitude in making a judgment about the economic nature of a country through the first step analysis or the second step analysis. If China's export companies are able to document fully important matters such as the source of raw materials used in export products, their cost and sales, and that they are not controlled by the state but rather are regulated by the market mechanism, this can play a definite role in impelling the United States Department of Commerce to regard China as a market economy for purposes of the case at hand.

Selection of a substitute country. Generally speaking, success or failure of litigation is determined by the selection of a substitute country. The issue of applicable law without provisions as to how to select a substitute country,

and what standards are to be applied is up to the Department of Commerce to decide. If Chinese exporting companies can fully demonstrate which country should be selected, this is bound to be an element affecting the Department of Commerce's selection.

Determining prices in substitute countries. Chinese exporting companies can produce specific data showing the special quality and uses of products from the substitute country or special circumstances prevailing in the trade process such as loan requirements for suppliers, pledges, technical assistance, post-sales service, advertising and commissions. All these circumstances may serve as a basis for readjustment of prices. The goal of citing proofs is to show that fair prices should be lower than the market prices of the designated substitute country. If China's export product price is equal to or close to the fair price, then no or less anti-dumping tax will be collected.

Extent of damage to domestic American industry. "Substantive damage" is the important condition for anti-dumping judgments to stand. Chinese export company's countermeasures should take account of the following points. First is to do all possible to broaden the concept of "industry," because the greater the area of investigation, the smaller the percentage affected by imported goods and the more difficult it will be for "substantive damage" to stand. Second is to demonstrate no cause and effect relationship between imported products and "substantive damage" to industry. An industrial slump may be attributable to various factors such as poor management of enterprises, strikes or a rise in the prices of raw and processed materials. Third, increase in China's share of export products puts pressure on the market share for other country's exports but does not take over the industrial markets of the United States itself, so it creates no damage.

5. Carrying Out of Bilateral Negotiations To Get the United States To Make Concessions

As was said in the foregoing, implementation of American anti-dumping law special regulations is frequently decided by political factors. Whether to impose an anti-dumping tax is often related to America's domestic and foreign economic situation at the time, its diplomatic and foreign trade policies and repercussions on foreign governments concerned.

Whenever a case comes up, what the American president has to consider is not limited only to whether imports have hurt a certain industrial sector; in more cases than not, he has to consider the economic, trade, political and diplomatic relations between the two countries. What the Department of Commerce and the International Trade Commission consider is problems in the specific implementation of anti-dumping laws. The Wage and Price Commission has to consider whether keeping foreign products from entering the United States helps or hurts inflation. The Chinese government can use its international political and economic position to get American departments concerned to abandon or limit discriminatory and protectionist policies and treat China's exports fairly. For example, in the 1982 textiles case, the Chinese government maintained a tough stance, and the American authorities finally gave into pressure and abandoned litigation.

6. Working together with importers and hiring of local lawyer specialists to deal jointly with anti-dumping lawsuits. Generally speaking, importers gain or lose directly as lawsuits succeed or fail. This is a basic condition for our linking up with importers. During lawsuits, importers can make use of their wideranging social contacts in the area, can collect all kinds of data and can talk to the uncommitted. The role of local lawyer specialists lies in their grasp of local law and their understanding of past cases of the same kind. Their ability to analyze cases, to select countermeasures and to find loopholes in the law cannot be matched by other countries or other specialized lawyers.

Note:

1. If data provided for use show the exporting country's economy to be state-controlled resulting in inability to determine a fair price for identical or similar goods sold in that country, exported for sale in a third country or offered for sale, then in accordance with Article 3 or Article 4 of the Third Section of the anti-dumping law, the Department of Commerce is to decide a fair price based on the domestic sale price or export price (including the export price to the United States) of identical or similar goods produced in market economy countries. See (19) Federal Law Register (69).

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FOREIGN TRADE, INVESTMENT

OVERSEAS LABOR EXPORT DISCUSSED

Beijing GUOJI SHANGBAO in Chinese 1 Sep 86 p 1

[Article by Li Bida [2621 3968 6671]: "In First Half of Year, China Signed New Contracts Worth Almost \$700 Million For Contract Labor Overseas"]

On 20 August, at the opening ceremony of an academic seminar held here [Lanzhou] on overseas engineering contracts and labor cooperation, Wulanmulun [3527 5695 2606 0243], Director of the Foreign Economic Cooperation Department, Ministry of Foreign Economic Relations and Trade, stated that in the first half of this year, China signed with foreign countries 312 new contract labor contracts, worth \$690 million; the volume of business has already passed the actual amount for the same period last year, better than had been expected.

He stated that there are some obvious characteristics of the deals made this year: 1) more than 90 percent involve payment now in foreign exchange, earning hard currency for the state; 2) most of them are medium and small projects, spread out over a fairly large area, making the risk relatively small; 3) there was more flexibility in negotiating the deals: for some we will actually receive petroleum in payment, and with some we accept part of payment in local currency (which can be used to pay the local expenses of the project, or used in reinvestment and purchasing products we need). This shows that Chinese companies' ability to adapt to the international contract labor market has gradually grown stronger.

This seven-day conference was jointly sponsored by the Chinese International Economic and Technical Cooperation Society, the International Economic Cooperation Research Institute of the Ministry of Foreign Economic Relations and Trade, and the Foreign Economic Cooperation Department. The conference came up with more than 100 suggestions and measures, including: solve the problem of funds through of a variety of means; foreign contract projects should be paid for as much as possible in cash and in foreign exchange; actively contract to do projects which can spur the export of large machinery and electrical products; vigorously develop labor export with a variety of channels and levels; clear away the obstacles to receiving payment in kind, and strive to obtain several projects which can be done in this way.

Also speaking at the conference were Shi Lin [4258 2651], president of the International Economic Cooperation Society, and Liu Shu [0491 1859], Vice Governor of Gansu.

FOREIGN TRADE, INVESTMENT

POOR QUALITY OF IMPORTED COMMODITIES DISCUSSED

Beijing GUOJI SHANGBAO in Chinese 1 Sep 86 p 1

[Article: "Increasing Problems with Quality of Imported Commodities; Broken Automobile Large Beam, Milk Powder Mixed with Starch; First Half of Year More than 8,000 Batches of Substandard Products Discovered; Commodity Inspection Bureau Requests Concerned Departments to Strengthen Inspection"]

[Text] This reporter has learned from the National Commodity Inspection Bureau that in the first half of this year, there was a rise in the percentage of substandard commodities imported into China, with commodity quality being a particular problem; the Commodity Inspection Bureau has requested concerned departments to strengthen their inspections and to promptly seek compensation overseas when problems are discovered.

According to statistics from the National Commodities Inspection Bureau, in the first half of this year, local commodity inspection bureaus inspected a total of 72,836 batches of imported commodities, discovering 8,187 substandard batches, making the substandard percentage 11.24 percent, an increase of 1.27 percent over the same period last year. The local commodity inspection departments promptly issued commodity inspection certificates for these substandard commodities, with which the departments ordering the goods could seek compensation overseas. According to incomplete statistics from only 12 commodity inspection bureaus, including those in Shanghai, Henan, Liaoning, Shandong, Hunan, and Fujian, foreigners have already paid more than \$10 million in compensation.

At present, the main problems with imported commodities are:

1. There are continually quality problems with imported cars. In May 1985 the Petroleum Industry Ministry imported 1,000 cars; within the automobile use warranty period, the large beam kept breaking while the consumers were using the cars. The foreign party has agreed to pay \$2.47 million in compensation. The Hubei supply and marketing cooperative imported 190 refrigerator and temperature-controlled cars; consumers discovered during use that aluminum panels in the inner wall of the car were corroded, producing a funny smell which made transporting food impossible. The Hubei commodity inspection bureau determined through its testing that the corrosion in the inner wall was due to use of improper materials, which reacted chemically to produce poisonous gas.

After the certificate was issued, the foreign firms have paid back \$100,000 in repair costs. The city of Shenyang imported 153 passenger and tourism vehicles; after testing, it was discovered that more than 10 percent had insufficient horsepower. In trucks imported by Anhui, Hunan, and Hubei, there have been cracks in the large beam, sudden shattering of the windshield, cracks in the tires, faulty brakes, and other problems.

2. With machine and electric products, old products have replaced new ones and inferior goods have been passed off as good ones. A company in Dalian imported a set of basic printing equipment, worth \$320,000. Inspection showed that most of the individual machines were old, including an electric cold blower which was made in 1971. A plastics factory in Fuzhou imported an extrusion moulding machine, on which the mould plating peeled off; testing showed that the machine and the products were both substandard. The Chinese International Trade Company imported almost 10,000 color televisions; in sample testing they discovered that there was interference from power sources, uneven grating brightness, slanted images, deformed cabinets, and other quality problems; foreign firms paid their Chinese customers 1.5 million yuan in compensation for the economic damages. Hunan imported 1,000 mimeograph machines, in which there was uneven spacing between characters, repeating characters, paper getting stuck, keys breaking off, etc.; foreign firms paid the Chinese party \$580,000 in compensation.

3. The quality of metal materials is substandard. Shandong imported more than 10,000 tons of hot-rolling roller plates; inspection revealed that more than 80 percent had defects in the layering, with some layers splitting apart. The China General Metallurgy Import-Export Company imported 10,000 tons of billets; inspection showed that the sulfur content exceeded the contract stipulations and that 25 percent had residual contraction cavities; foreign firms have paid \$170,000 in compensation. The Chongqing branch of the Metal and Mineral Import-Export Company imported 1,000 tons of aluminum ingots from Australia, more than 90 percent of which had smelting slag and contraction cavities; it has produced the certificate and is seeking compensation from the foreign firm.

4. Fake goods mixed among the commodities. There was actually starch mixed in with the more than 4 tons of whole milk powder imported by the Zhu Jiang Foodproducts Factory in Guangzhou. Of the three shiploads of raw iron imported by Shanghai, 2.2 percent was dirt. Even more unusual was the polyamide stretch fibers imported by Shanghai; when the Shanghai commodities inspection bureau and customs inspected it, they discovered that there were not any goods within the container, just 700 bricks.

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TECHNOLOGY IMPORT STRATEGIES EXAMINED

Hefei ANHUI RIBAO in Chinese 5 Sep 86 p 4

[Article by Zhu Wengen [2612 2429 2784]: "Personal Views on Anhui's Import of Technology"]

[Text] There are currently three main points of view concerning the question of importing technology into Anhui: one advocates importing advanced technology; another attaches equal importance to importing advanced technology and applicable technology; and the third advocates importing "intermediate technology."

In the opinion of the writer, Anhui should strive to import advanced applicable technology and import the most advanced technology aimed at a limited number of targets.

Our country is still very poor and Anhui's funds are limited. When Anhui imports technology, it must use the limited funds where they are most needed. How do we know that we are using them where most needed? Is it most needed in importing advanced applicable technology? Or in importing "intermediate technology"? Without doubt, advanced applicable technology has potential for future development; but "intermediate technology" has already been or will soon be rejected in developed countries, so that its days are numbered. Strictly speaking, importing "intermediate technology" means importing the rejects of developed countries. In addition, in importing advanced applicable technology, priority must be given to equipping Anhui's large and medium enterprises and bulwark enterprises, allowing them to play their roles of "backbone" and "head that leads the dragon."

The basic goal of importing advanced applicable technology is to greatly improve the ability of products from Anhui enterprises to compete in the domestic and international markets. Because "intermediate technology" is technology that developed countries are flocking away from, importing this kind of technology will certainly cause the products of Anhui enterprises to lose their competitive ability in the international market; even if the products have a little competitive ability, it is a minute amount. The national situation is that every province and area is opening up to the outside world and importing technology. Jiangsu, Zhejiang, Shanghai, and other coastal provinces and cities, along with many other inland provinces and

areas, are all making advanced technology the main focus of their imports. If Anhui imports "intermediate technology," it will hardly be able to contend with stronger competitors in the domestic market, not to mention the lack of competitiveness on the international market. May I ask, what is the significance of such imports?

Some people worry about Anhui's backwardness, the low management level, the poor industrial foundation, and the low educational and technical level of workers, and wonder whether we will be able to master the advanced technology if it is imported? This question cannot be given a simple answer, rather, we must analyze the specific details. The management level, the industrial foundation, and the workers' educational and technical level are not balanced in the province as a whole. In Anhui's 8 large and medium cities--Hefei, Bengbu, Wuhu, Huainan, Huaibei, Ma'anshan, Tongling, and Anqing--industry is relatively developed, technical forces are concentrated, transportation is convenient, economic strengths are abundant, and the management level and the workers' cultural and technical level are rather high. These cities are able to digest and absorb advanced applicable technology, quickly turning it into productive forces. When we talk of giving priority to transforming the technical foundation of large and medium enterprises and bulwark industries, these large and medium enterprises and bulwark industries are primarily divided among the 8 large and medium cities. These 8 large and medium cities are a good foundation for Anhui's importing of advanced technology; we must not overlook this fact. When we look at problems we must prevent "over generalizations." "Over-generalizing" hides the imbalances and diversity in Anhui, and buries Anhui's advantages and strengths.

There are also some comrades who feel that Anhui should first take small steps in importing technology, taking several small steps before taking any big steps, otherwise we will run out of reserved energy, and our desire for haste will prevent our success. Their intentions are good. However, every province and area is currently scrambling to get ahead, spurring their galloping horses; if we are still taking small steps here, won't the gap get bigger and bigger? When we are ready to take big steps, everybody else will already be flying high, too far ahead for us to catch up. Everyone knows that the world's new era of technological revolution is a challenge to all developed and backward countries, but it is also an opportunity. This "opportunity" has opened the door widely to everyone; whoever gets his foot in first will win the opportunity. So, will those who first take small steps and then take big steps get it first? Or will those who move forward quickly, with all their speed, get it first? We should say that it is the latter.

The question now arises of how to view this "reserve energy." Viewed from one angle, sometimes leaving enough "reserve energy" is very useful, but at other times, leaving "reserve energy" is not very useful. Even though one may have "strength to move mountains and a spirit unmatched in this age," there is no place to show one's ability. An athlete says, "I want to save enough energy in the preliminaries so that I can do well in the final competition," but by saving his energy, he does not get the results he should have and fails to qualify for the final competition. There is no place he can use the "reserve energy" he has saved. This illustrates that we should change with the times, and use our energy where it is most needed; viewed from another angle, does

"taking small steps" really give us "reserve energy"? Does it really leave so much "reserve energy"? I fear it is quite difficult to give an affirmative answer. If we now proceed forward quickly, with all our speed, does that mean that later on we will definitely not have "reserve energy"? In my opinion, not necessarily; it is also possible that the powerful momentum and propelling force formed by moving forward at top speed will create an even greater "reserve energy." "Taking small steps" and "having reserve energy," and "moving forward at top speed" and "no reserve energy" really do not have an inevitable cause-effect relationship. This question is worth serious consideration. "Taking small steps, having reserve energy" is not a law of nature or a universal truth. After the Second World War, Japan's condition really was not better than China's, nor was it better than Anhui now. In that case, how did Japan in the short span of 40 years develop so rapidly? There are certainly many factors here, but Japan's development mentality perhaps was not to first take small steps and then take big steps, but rather to aim at the opportunities and move forward at top speed.

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CSO:4006/38

FOREIGN TRADE, INVESTMENT

INCREASED EXPORTS OF NON-FERROUS METALS FROM JIANGSU

Beijing GUOJI SHANGBAO in Chinese 8 Sep 86 p 1

[Article by Wang Chang [3769 1603]: "Jiangsu's Non-ferrous Metal Exports Achieve 2 National Firsts; "Lending Its Womb to Bear Other's Baby," Support Given to Industrial and Mining Enterprises in Other Provinces and Cities; "Giving Plums in Return for Peaches," Goods Supplied to Import-Export Trading Companies"]

[Text] The Jiangsu Metal and Mineral Import-Export Company has "lent its womb to bear other's baby" by using its own strengths to support other provinces and cities in bringing out their production ability and in increasing export goods, using its efforts to expand exports; by the middle of August, the rate of progress of non-ferrous exports and the amount of reciprocally funded exports had leaped to first place in the nation. The actual achievement was \$11.87 million, a 396 percent increase over the annual plan.

In addition to establishing within Jiangsu a series of export product bases, and based on the concrete situation in regard to Jiangsu's scanty mineral resources, the lack of energy sources, and production difficulties, the Jiangsu Metal and Mineral Import-Export Company has, by providing technology, funds, and other services, been actively expanding joint operations with industrial and mining enterprises in other provinces and cities, where there is a larger scale of production and the sources of electricity are plentiful and cheap, signing agreements to produce, sell, and be agents for export. Professional contact has been established with more than 100 enterprises. Benefits have been mutual: last year 38 enterprises in other cities supplied goods to the Jiangsu Metal and Mineral Import-Export Company, and more than 10 have been added this year. Approximately 85 percent of the non-ferrous metal commodities exported by the Jiangsu Metal and Mineral Import-Export Company came from other provinces and cities.

On 28 August the Jiangsu Metal and Mineral Import-Export Company invited more than 60 industrial and mining enterprises from Jiangsu and other provinces to attend talks in Lianyungang on developing exports of non-ferrous and ferroalloy metals; 9 letters of intent and agreements were signed, and 10 development and investment proposals were agreed upon; a number of deals were made with foreign companies, worth a total of \$14 million. After these projects have been realized, they will greatly increase the ability to export and earn foreign exchange.

FOREIGN TRADE, INVESTMENT

DISCUSSIONS HELD ON EXPORT OF CHEMICAL TO JAPANESE MARKET

Beijing GUOJI SHANGBAO in Chinese 15 Sep 86 p 3

[Article by Liu Bo [2692 3134]: "How Can China's Chemical Products Enter Japanese Market; Discussion with People in Japanese Chemical Trade; Technical Manuals and Samples Prerequisite to Finding Right Customer; Price, Quality, and Packaging Key to Capturing Japanese Market; Prompt Responses to Correspondence and On-Time Deliveries Important Steps in Expanding Market"]

[Text] In August of this year, the principal Japanese firms importing Chinese chemical products held a conference in Tokyo, discussing "How can Chinese chemical products enter the Japanese market." We here have edited for publication the remarks of conference representatives, with the hope of arousing the interest of concerned people within China.

Japan is one of the largest markets for chemical products in Asia and the world. Last year, Japan imported various chemical products worth \$9.1 billion (not including petroleum and petroleum products), but only \$272 million worth of chemical products were imported from China, a very small proportion. In recent years, the quantity and variety of China's chemical exports have increased quite quickly; furfural, barium carbonate, mirabilite, hydrazine hydrate, magnesium chloride, and other commodities have already established dominant or important positions in the Japanese market. But there are also many commodities with a great potential which move up and down but never actually show any growth.

What is the reason? What is the solution? Representatives speaking at the conference believe that:

1. Technical Manuals and Samples are Prerequisite to Finding the Right Customer

Chinese-Foreign Trade Company: Most of China's chemical exports are raw materials and supplementary materials, which customers use after purchase to produce other products. If there are problems with the raw material, it will certainly affect the quality of the product. Therefore, Japanese customers demand very strict product quality specifications; this requires the products of the Chinese party to have detailed technical manuals and samples, thus allowing the buyer to choose and run chemical tests. Only with this as a

basis can one proceed to the level of trade negotiations. The product technical manuals from some Chinese trading companies list only one kind or several kinds of principal specifications, such as the content, the purity, and technical parameters. But Japanese customers not only demand detailed specifications listed in the technical manual, they also want the detailed specifications listed in the contract, such as water content, impurities, foreign matter, heavy metal content, etc; only then do they want small samples to run actual chemical tests. It is hoped that this will arouse serious consideration on the Chinese side, for in Japan, detailed technical manuals and samples are the "prerequisite" for trade.

Sumitomo Trading Corporation: There are some products with very good prospects in Japan, but due to production or inspection problems in China, they cannot satisfy the customer's needs and cause the painful loss of a good opportunity. For example, customers of the catalyst nickel sulfate all demand a listing of the heavy metal content in PFM before they can determine whether or not it can be used, but Chinese companies often say that they cannot do chemical tests, thus losing a good trade opportunity.

Nichimen Company: In this situation, China now entrusts the samples to the Japanese customer for chemical testing; experience has proven that this is feasible. China can also request the Japanese party to provide the desired specifications in order to arrange production.

2. Price, Quality, and Packaging Are Crucial to Capturing the Japanese Market.

Chinese-Foreign Trading Company: After seeing the technical manual, chemically testing samples, and determining a suitable price, Japanese customers usually do not want to order large amounts, but prefer, for example, half a ton or one ton to carry out batch testing. At this time, the customer usually requests that certain specifications be improved in the large order. But some Chinese gentlemen feel that this is "troublesome" and "too demanding," and turn down the request. In fact, this is not the case. With all Chinese commodities successfully exported to Japan, such as mirabilite, kelp-acid sodium, and barium carbonate, the customers' request to carry out experimental testing was accepted at the start, and during production there has been continual technical exchange and improvement of quality; at the same time, there is improvement of price due to full consideration of the competitors' price level. Only in this way was it possible to gradually get a foothold in the Japanese market and then to go on to take over the market.

Sumitomo Commercial Company: The insufficient attention paid by China to packaging improvement is another factor influencing trade with Japan. It can be said that there is great variety in the packaging of goods on the Japanese market. For example, just for goods in sacks, there are paper sacks, cloth sacks, gunnysacks, plastic-woven sacks, net sacks, and other varieties. There are a variety of specifications for sack weight — 5 kg, 10 kg, 15 kg, 20 kg, 24 kg — from which the customer can choose. Chinese goods packaged in sacks are mostly only packed in 25 kg and 50 kg sacks; but some Japanese ports have regulations concerning goods packed in 50 kg sacks, stating that workers can refuse to unload them (because of the excessive weight). But some companies

in China are unwilling to change and insist that they can only change with big quantities, losing the opportunity for a deal. To give another example, Japanese paraffin wax is mostly packed in 20 kg cardboard boxes, but the Chinese product is only packed in 50 kg sacks. With other commodities, Japan requests that they be packed in larger containers (such as 500 kg or 1,000 kg), because this size makes loading and unloading convenient and reduces the cost of bringing in the goods; some commodities, such as mirabilite, increased their sales after changing the packaging; if this is not done, it is not easy to enter and expand the market.

3. Prompt Responses to Correspondence and On-Time Deliveries of Goods are Important Steps to Preserving and Expanding Japanese Markets

Chinese-Foreign Trading Company: China's late responses to letters and telexes is an old story by now, to which customers react very strongly. In particular, it takes forever for customers to get responses to their telex and telephone requests for improved specifications, announcement of the sailing date, etc. In Japan, time is money, and this is even more true in international trade. It is hoped that Chinese parties will conscientiously make improvements, otherwise customers will lose confidence, which will lead to the loss of business.

Sumitomo Commercial Company: Although an immediate response may not be possible in some situations, such as improving the packaging, price, or other requested items, the supplier should temporarily announce "studying problem now," "may we respond in so many days," etc. Long delays in answering leaves the trading company bewildered, a business opportunity is lost, and it cannot answer the customer.

4. An Important Way to Make It in the Japanese Market is to Pay Attention to Market Trends and Seize Trade Opportunities

Nichimen Company: The supply-demand relationship in the Japanese market sometimes changes very quickly. What today is in "short supply" may be "oversupplied" tomorrow. Today the commodity is overstocked, tomorrow supply cannot meet demand. It is very important to pay attention to this trend and seize the trade opportunities. For example, on the Japanese market in 1981, mirabilite suddenly went from being a large volume export to being an import. Concerned Chinese companies immediately carried out investigations and research and learned that the Japanese mirabilite market had changed and that for the short term it would still be very difficult to restore production. China immediately seized the opportunity to organize deals and supply of goods, and quickly satisfied the customers' demands raised during delivery for improved quality (there was too much foreign matter) and larger packaging, also inviting the customer to visit the production site to carry out technical exchange. In just a few years, the exports of Chinese mirabilite to Japan have already reached 40,000 to 50,000 tons, more than 90 percent of the mirabilite imported into Japan. This is a very successful example.

Sumitomo Commercial Company: There are many examples like this. This shows that China is already paying attention to seizing trade opportunities. We believe that as long as Japan and China cooperate closely, Chinese chemical products can certainly enter the Japanese market in larger quantities and at a faster rate.

FOREIGN TRADE, INVESTMENT

SHANGHAI DEFENSE INDUSTRIES PRODUCE CIVILIAN EXPORT GOODS

Beijing GUOJI SHANGBAO in Chinese 22 Sep 86 p 2

[Article by Shen Xin [3947 0207]: "Striking Results in Civilian Exports Made in Shanghai Defence Industry Enterprises"]

[Text] In recent years, Shanghai defence industry enterprises have been actively expanding exports while developing civilian production; during the Sixth 5-Year Plan, they earned almost \$700 million in foreign exchange through exports, including exporting 641,500 tonnage of ships, 80 percent of the total tonnage of ships exported from China; the deals were worth \$596,740,000, 60 percent of China's total volume of exported ships.

One of the special characteristics of the expansion in exports from Shanghai defence industry enterprises is that the industries have a fairly strong capacity for technical development. In the past few years, based on the needs of the international market, Shanghai defence industry enterprises have used their special strengths in defence industry technology to continuously develop a group of export products, consisting primarily of ships, aeronautics, machinery, and electronic products. These products have a large market capacity and a broad marketing range. The Shanghai No 573 Factory, for example, has used the method of integrating defence industry technology and imported technology; in over a year, it has developed automatic cutting-out machines, automatic textile measuring instruments, and compound pickup cameras for export, creating within two years the ability to earn more than \$4 million in foreign exchange. The second characteristic is that the export products produced by defence industry enterprises have a strong capacity for earning foreign exchange. For example, the aircraft main landing door and front landing door exported to America are of such good quality that the American party decided to let China produce and install them in all airplanes exported to China; the amount ordered this year is twice as large as last year's. In one year these two items can earn more than \$1.3 million in foreign exchange. The third characteristic is that Shanghai defence industry enterprises are constantly adjusting their product mix, cutting back on low quality products and expanding production of high quality products, gradually changing from an extensive model to a technology-intensive model. At present, Shanghai defence industry enterprises already have a number of scientific research results which can be transformed into export products, such as new model ships, cars, robots, more intelligent instruments and meters, surface receivers for satellites, and radio and television transmission and receiving equipment.

FOREIGN TRADE, INVESTMENT

BRIEFS

HONG KONG INVESTMENT IN PRC--According to statistics from the Hong Kong Financial Affairs Section, in the first half of this year, loans made by Hong Kong banks and companies accepting deposits to non-bank customers within China's interior exceeded for the first time HK\$ 10 billion, reaching HK\$ 11.06 million. The loans were principally used in Chinese-foreign ventures, with tourism taking quite a large share.

The amount and increased scale is apparent in loans made in the recent period by Hong Kong banks and companies accepting deposits to non-bank customers in the interior. The amount increased HK\$ 8,509,000,000 over last year's HK\$ 2,551,000,000, making the growth rate for one year 333.68 percent. The large increase in Hong Kong's investment and loans to the interior reflects that the various forms of investment in the interior by foreign businessmen, including Hong Kong's, continue to be active. [Text] [Beijing GUOJI SHANGBAO in Chinese 1 Sep 86 p 1] 12919

ELECTRONICS IMPORT DUTY RAISED--From 21 August, China's General Administration of Customs will make appropriate increases in the import duty rate for some electronic instruments. The specific adjustments are as follows: the import duty on AC-DC voltage-regulating power sources will be adjusted from 25 percent to 40-60 percent; signal generators above 1500 megahertz will be adjusted from 9 percent to 15-20 percent; signal generators below 1500 megahertz, general oscilloscopes below 300 megahertz, voltmeters with less than 5.5 digits and signal generators below 12,400 megahertz, general oscilloscopes below 300 megahertz, voltmeters below 5.5 digits and digital frequency meters and electrical resistance and capacity measuring devices below 10.400 megahertz will all be adjusted from 9 percent to 60-80 percent; other electronic measuring devices will be adjusted from 9 percent to 15-20 percent. [Text] [Beijing GUOJI SHANGBAO in Chinese 1 Sep 86 p 1] 12919

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ECONOMIC ZONES

SHENZHEN FINANCIAL SYSTEM OPENED

Zhengzhou ZHONGGUO CHENGXIANG XINXI BAO in Chinese 21 Sep 86 p 1

[Article by Li Pinks [2621 0756 4430]: "Shenzhen SEZ Has Formed Open Financial System"]

[Text] Shenzhen SEZ has formed a multi-level, open financial system, with the China People's Bank at its core, a national specialized bank as its main body, and including a variety of financial enterprises, such as foreign-owned banks, financial companies, trust and investment firms, and financial leasing firms. Since April of last year, when the State Council issued the "Regulations on the management of foreign-owned banks and Chinese-foreign-owned banks in the SEZ's of the PRC," four banks have opened business branches in Shenzhen SEZ: the British-owned Hong Kong and Shanghai Banking Corporation and Chartered Bank, the French-owned Banque Indosuez, and the International Commerce Credit Bank from the Middle East. At the end of last year, the French Societe Generale representative office was raised to a branch. In addition, 3 Chinese-owned Hong Kong banks and 13 foreign-owned and overseas Chinese-owned banks have also opened business branches. The arrival of foreign-owned financial organizations has opened roads for the importing of foreign funds into Shenzhen SEZ, competing for the investment of international consortiums and multinational corporations, and developing international finance. A securities firm, which has only been in Shenzhen SEZ for two months, has together with the Shenzhen Agricultural Bank issued more than 29 million yuan of financial bonds.

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ECONOMIC ZONES

XIAMEN MAYOR ON SEZ ACHIEVEMENTS, PROSPECTS

Zhengzhou ZHONGGUO CHENGXIANG XINXI BAO in Chinese 23 Sep 86 p 3

[Article: "Achievements and Prospects of SEZ, Discussed by Xiamen Mayor Zou Erjun [6760 1422 0971]"

[Text] The Xiamen SEZ was created in October 1981; in setting it up we concentrated our human, material, and financial resources and directed them toward the construction of basic facilities. The main projects were to: 1) develop the lake industrial zone; 2) set up the Dongdu deepwater docks; 3) build the Xiamen international airport; 4) import a 10,000-switch programmed automatically controlled telephone exchange system, opening up direct-dialing to all large and medium cities and to Hong Kong, Japan, the United States, etc.; 5) build as a reserve energy source a gas turbine assembly with an assembled capacity of 75,000 kilowatts; 6) rebuild the Baixi water diversion project, at the same time constructing a new water treatment plant capable of processing 60,000 tons daily. While this was going on, in order to train personnel by various means, we recruited a group of technical and administrative officials from Fujian and other provinces.

Steady improvement in the investment environment strengthened Xiamen SEZ's appeal to the outside world. By the first half of this year, the entire city had signed with foreign businessmen 314 contracts for the "three ventures" (Chinese-foreign joint ventures, Chinese-foreign cooperative ventures, and wholly foreign-owned ventures), of which 225, worth \$870 million, had been reviewed and approved. In the past few years, a total of 126 "three venture" enterprises have been completed and entered production. In addition, 5 foreign- and overseas Chinese-owned banks have opened branches in Xiamen, and 55 foreign business organizations have opened representative offices.

Looking ahead to the next five years, Xiamen will focus on reform, boldly seeking new ways to develop the SEZ and striving to obtain experiences in reform of its economic system that will benefit the nation, gradually implementing certain free port policies; it will continue to do a good job of constructing basic facilities, focussing on energy and transportation, while working hard to develop and link up systems in the lake industrial zone; with industry as the focal point, it will actively use foreign funds and import technology to set up "three venture" enterprises and accelerate the technical transformation of old enterprises, gradually building Xiamen into a

comprehensive, export-oriented SEZ, based primarily on industry but also engaged in tourism, commerce, and real estate; through development of various forms of economic and technical cooperation with the interior, it will play the SEZ's pivotal role of being the "four windows" and radiating out like "two fans"; it will adhere to the "four basic" principles, strengthen the development of spiritual civilization, emphasize intellectual development, and strive to build an SEZ with Chinese characteristics.

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FINANCE, BANKING

CHEN MUHUA DISCUSSES RATIONAL USE OF FUNDS

Beijing ZHONGGUO JINRONG [CHINA'S BANKING] in Chinese No 8, 4 Aug 86 pp 2-3

[Abstract of speech by Chen Muhua, date unspecified: "Vigorously Organize the Rational Use of Funds; Support Economic Growth at Appropriate Rates and Strictly Control Capital Construction"; first paragraph is source-supplied introduction]

[Text] Chen Muhua, state councilor and president of the People's Bank of China, recently delivered a speech at the National Conference of Agricultural Bank Branch Presidents, in which she discussed such issues as the financial situation in the first half of 1986 and tasks for the second half of the year. Comrade Chen stated the following.

Banks Have Played an Important Role in Improving Economic Life

Since the beginning of 1986, in accordance with the guiding principles set forth by the State Council for 1986's economic work and through readjustment of the mix of credit grants, the People's Bank and various specialized banks have strived to strengthen macroscopic control while improving overall financial control, supported a rational rate of economic growth and achieved marked results, which are reflected mainly in the following areas.

1. More currency has been withdrawn from circulation than in previous years. In the first half of 1986, nearly 10 billion yuan of currency was withdrawn from circulation, an increase of 6.5 billion over the corresponding period of 1985.
2. Savings deposits have maintained a fairly high speed of growth. In the first half of 1986, urban and rural savings deposits increased by more than 30 billion yuan, a rise of nearly 10 billion yuan, or 47.5 percent, over the corresponding period of 1985. By the end of June, total urban and rural savings reached 192.6 billion yuan.
3. Demand for circulating funds has basically been met. To alleviate the shortage of circulating funds that appeared at the beginning of 1986, the People's Bank has appropriately relaxed restrictions on loans of such funds, dealing with each case on its own merits, so as to support production of marketable products and of exports that earn foreign exchange; to assist

production and stockpiling of raw materials in the energy, communications and raw materials industries; to help enterprises pay off defaulted debts; and to meet the needs of some new enterprises for circulating funds.

4. The mix of agricultural loans has been fairly rational, and we have supported the development of cultivation and breeding. Agricultural banks and credit cooperatives in all localities have implemented a credit system under which different areas and industries are handled differently so as to support those areas and industries that are better qualified. Loans for, loan shares of, and loan coverage for planting and breeding, especially of grain, have risen over the same period of 1985. Loans for township and town enterprises have also increased considerably, but loans for equipment have been kept under control. Loans for the poor have also risen. According to statistics for 22 branches of the Agricultural Bank, over 1 billion yuan of loans for the poor have been granted, showing a fairly large increase.

5. Fixed-asset loans have increased fairly steadily.

6. Foreign-exchange balances have risen due to the vigorous support rendered to exports and due to control of imports.

Chen said: General economic and financial conditions are good, but there are also some problems that deserve note. First, industrial loans have not kept pace with industrial production. Second, many enterprises continue to be in arrears in their payments. Third, regulation of bank capital is not flexible enough. Comrade Chen continued:

Since Funds Will Still Be Tight in the Second Half of 1986, Banks Should Be Cautious and Conscientious and Do a Good Job

A great demand for funds persists in all aspects of economic life, so in the second half of 1986, banks should seek "liberalization amidst stability," strive to support an appropriate growth rate, maintain a basic balance in credit and refrain from issuing additional currency. To this end, in the last half of this year banking should focus on aggressive organization of funds, exercising strict control over capital construction, dealing with each request for circulating-fund loans on its own merits, and flexible regulation of funds for short-term loans.

In organizing funds, we must start with five things: (1) Vigorously organizing savings deposits, striving to improve service, building more networks, increasing the variety of savings accounts and trying in all possible ways to expand the source of savings deposits. (2) Vigorously publicizing the savings deposit business of the post and telecommunication service, and having local branches of the People's Bank use the deposits so absorbed to extend temporary loans. (3) Increasing circulating-fund loans as deposits increase. (4) If new or expanded enterprises find that their own circulating funds fall short of 30 percent of their total needs, they should vigorously adopt measures to make up the deficiency. If they still have difficulties, specialized banks should help them by granting special loans through bond issues. (5) Initiating commercial note honoring and discounting services so as to help enterprises pay off liabilities, invigorating fund flows, reducing money supply, encouraging

relevant departments and enterprises to dispose of stockpiled goods and materials, and reducing irrational loans.

Chen requested that we uphold the following three principles in using funds.

1. Vigorously support what should be supported. We must guarantee supply of capital needed for the procurement of farm and sideline products and continue to support production of foreign-exchange earning exports and of marketable products. Banks should give proportionate priority to support of enterprises that have vigorously established horizontal economic links and created good economic results when such enterprises temporarily exhaust their holdings of circulating funds due to expansion of production following integration with other economic entities. Banks may appropriately relax conditions on circulating-fund loans to township and town enterprises that have good economic results, hot-selling products, a great ability to pay and a good reputation and on loans to impoverished areas. Banks may help cover temporary circulating-fund shortages suffered by enterprises that upgrade products and open new markets through technological transformation. As for commercial wholesale enterprises at all levels who need funds to maintain proper commodity inventories, banks should help regulate surplus and deficiency and give these enterprises special consideration.

2. Strictly control what should be controlled. The main thing here is that we must control capital-construction loan volume, and we must never grant any loans for above-plan capital-construction projects without the formal approval of the State Council. As for those enterprises whose products are unmarketable, enterprises who have no one to bear responsibility for their losses and enterprises that misappropriate circulating funds to expand capital construction, loans should be strictly controlled and inappropriate loans must never be granted.

3. Conscientiously improve what should be improved. We must gradually improve, in accordance with the requirements of the planned commodity economy, instruments for the settlement of accounts, procedures for extending short-term credit, and supervision so as to meet demand.

Improve Work, Restructure Administration and Strengthen Personnel Development

To do a good job in banking work during the second half of this year, Comrade Chen called on us to make new breakthroughs in three areas: improving our work, accelerating reform, and strengthening personnel development. First of all, we must change people's ideas. People have long been habituated to "eating out of the same big pot." In the past, once plans were set, higher levels sent down the required funds, and when problems were encountered people simply asked for help from higher levels. Now that planning and funding have been separated, however, plan fulfillment requires vigorous efforts to organize funds. To help change old ideas, the People's Bank has decided to readjust, whenever appropriate, interest rates on loans granted to specialized banks so as to arouse the enthusiasm of these banks for capital accumulation. We must make banks play their true roles and function as real economic levers. In regard to the improvement of our work, Comrade Chen stressed that we must strengthen investigation and research, properly understand policy, seek truth

from facts, utilize funds according to local need, improve service, make things convenient for savings and loans customers, improve account settlement and strengthen supervision.

With regard to acceleration of financial restructuring, Comrade Chen urged banks in all localities to conduct conscientious studies and draw up appropriate plans. Reforms that can be carried out now should be stressed and implemented now. As for issues requiring discussion and study, we must organize and deploy our forces promptly so as to avoid missing any opportune moments. And in our reform, we should devote special attention to tailoring measures to suit local conditions and strive to avoid arbitrary uniformity.

Comrade Chen emphatically stated that strengthening personnel development is a urgent task of the financial system. As the economy grows and financial work develops, our ranks will also expand. On the whole, our ranks are good, and criminals engaging in pernicious practices and using loans to seek personal gains are, after all, a small minority. Yet there are many new bank employees, and many of these lack the necessary, regular political and ideological education and needed specialized vocational training. The quality of these employees thus remains low, so they cannot meet the needs of financial work, which is developing constantly. Therefore, strengthening personnel development has become a prominent task facing the financial system. People provide the main assurance of correct implementation of policy. Banking operations and financial restructuring both require employees possessing certain qualifications. Comrade Chen urged comrades at the meeting to pay full attention to this task and do this work more solidly when they return to their positions.

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FINANCE, BANKING

ADJUSTMENTS IN PRIME RATES ANNOUNCED

Beijing JINGJI RIBAO in Chinese 18 Aug 86 p 1

[Article by Li Shourong [2621 1343 1369]: "Control Credit, Increase Capital Gains: The People's Bank of China Adjusts Prime Rates on Loans and Deposits"]

[Text] The People's Bank of China recently announced that beginning 1 August 1986 it will adjust its prime lending rate to specialty banks and its interests paid on deposits.

This decision includes the following: The new rate of interest paid to specialty banks for deposits at the People's Bank will increase from 0.36 to 0.48 percent per month; interest on budgeted loans will increase from the present 0.39 percent to 0.54 percent per month. Interest on extra-budget provisional loans will be changed from the present 0.42 percent per month to a variable rate system; interest on loans of 20 days or less will be 0.54 percent per month; interest on loans from 20 days to 3 months will be 0.57 percent per month; penalty on overdue loans will be at a monthly rate of 0.90 percent. The People's Bank's rediscount rate to specialty banks will be 0.03 percent below the monthly interest on similar provisional loans. Interest on reserve deposits will remain at 0.36 percent for the time being.

The People's Bank points out that since the prime rate adjustment in 1985 the costs for specialty banks to attract deposits have increased and the interest they charge on loans have gone up accordingly. As a result, the People's Bank's prime rates on loans and deposits have become too low. To increase control over the volume of loans and to encourage specialty banks to utilize their own resources for loans, interest paid by the People's Bank to specialty banks for deposits should be higher than the average loan rates charged by the specialty banks; the prime rate on loans to specialty banks should be higher than the cost for banks to attract deposits, and should approximate the rate of interest charged by specialty banks for their loans to their clients so as to prevent specialty banks from making a profit out of obtaining loans from the People's Bank. To enable specialty banks to manage their funds better and accelerate the turnover rate, the People's Bank will implement differential rates on provisional loans based on the length of the loan period: the longer the loan period, the higher the rate of interest.

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FINANCE, BANKING

DELINEATING CENTRAL, LOCAL TAXATION, EXPENDITURE

Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese No 8, 11 Aug 86 pp 53-55

[Article by Qiu Tairu [6726 3141 1172], Fujian College of Sociology: "Central Verses Local Taxation and the Scope of Public Finance"]

[Text] Premier Zhao Ziyang pointed out in the Seventh 5-Year Plan that we must "perfect the system of taxation, differentiate central and local tax revenues by tax sources, and define central and local fiscal domains." This article is an attempt to address those issues.

I. Differentiate Central and Local Taxation

To make a rational differentiation between central and local tax revenue as well as revenue shared between central and local governments, we must determine the percentage of the national revenue allocated to the central treasury. Since the 1970's the percentage has been 80 to 90 percent in the Soviet Union and the East European countries and about 60 percent in the major capitalistic countries. In China it was 51.9 percent in 1983; it led to the central government's tight financial situation. Preferably the central treasury's share should be about 70 percent (slightly lower than the 73 percent share during the more financially centralized First 5-Year Plan), that is, the central government should get the bulk of the tax revenues.

Since the implementation of tax reform taxation has become the nation's principal instrument of revenue. To ascertain the amount of public funds needed for the various government functions we must apportion the tax revenue among the different levels of government rationally. In delineating central tax, local tax, and revenue-sharing, we must consider the size of the tax bases and the purpose of the levies. While we should guarantee that the central government receives the bulk of the revenues, we must also give due consideration to the financial gains for all levels of government, and at the same time bring the role of taxation as economic lever into full play to realize the goals of macro control and micro revitalization, and to promote the country's economic growth.

A. Central tax classification: between 1951 and 1958 there were tariffs and a salt tax. Between 1959 and 1984 only tariffs remained. Today central tax delineation should facilitate the central government's efforts to implement macro control over national economic development.

First, central taxes should facilitate the central government's control over capital construction projects. Based on this requirement, construction taxes should be classified as central taxes. To mobilize local enthusiasm in imposing taxes on constructions, the revenues may be shared between central and local governments, but in principle they should not be classified as local taxes. On the whole, all taxes levied for the purpose of regulating the scale of capital construction projects should be classified as central taxes.

Second, central taxes should curb duplicative production and reckless expansion at the local level. Experience has shown that if certain types of items taxed at a high rate are classified as local taxes they tend to provoke regionalism and local blockades and have an adverse effect on the development of lateral relations in the commodity economy. For example, heavy cigarette and liquor taxes have led to duplicative and blind expansion of local cigarette and liquor production for the sake of augmenting local revenues. Taxes on items with high rates and which foster redundant local investments should therefore be classified as central taxes.

Third, central taxes should facilitate the central governments control of the national economic lifeline. The central government should maintain control over the turnover and profit taxes remitted by the departments and enterprises which have decisive effects on or are key elements in the national economy so that the central government can control the lifeline of the national economy and control the main source of tax revenue. For example, based on the principle of independence and self-determination, and to protect and promote national economic development and spur foreign trade, tariffs must be classified as central taxes. As another example, because departments and enterprises directly subordinate to the central government serve as leaders and are the mainstay in the expansion of our national economy, their turnover and profit taxes should be classified as central taxes. Furthermore, land, mineral and hydroelectric resources belong to the nation; to put them to rational and efficient use and to compensate for differences in profit levels resulting from local deficiencies in resources, we should consider levying taxes on a wider range of resources and also consider classifying taxes on resources as central taxes.

B. Local tax classification should not affect the central government's entitlement to the bulk of the tax revenue and should be conducive to mobilizing local collection and administration of taxes as well as stabilizing and expanding sources of capital for local construction undertakings.

1. Between 1951 and 1958 and since 1977, levies on slaughtering, livestock exchanges, urban real estate, boat and automobile licenses, deeds, and market exchanges have been classified as local taxes. These taxes and taxes on maintenance of urban installations, land use, properties, and boat and automobile excise taxes should be categorized as local taxes. This will enhance urban management, facilitate collection of funds for urban construction projects and promote local production. Currently, these tax bases are broad and dispersed and must rely on local authorities for collection. Special levies for specific purposes in the counties (cities) and small towns (as in levies on maintenance of urban installations and land use), may be added to that level of government's revenues to augment local construction funds.

2. Until 1983, revenue from collective and individual sectors of the economy accounted for only 12 and 2 percent, respectively, of the total national revenue, and if we exclude the agricultural (livestock) tax, the percentage is even lower. If we classify the turnover tax and income tax levied from collective enterprises and individual industrialists and businesses as local taxes it will facilitate local collection from these dispersed tax sources, and it will have relatively little effect on the bulk of the central revenue. If we consider the fact that the tax base will grow as the economy expands we can designate revenue from the turnover tax to be shared between the central and local governments while allowing local governments to retain the income tax revenue.

3. After the countryside implemented the family output-related responsibility system, agricultural (livestock) taxpayers have multiplied and become more dispersed, and revenue has increasingly become dependent on local authorities for collections. China's tax revenue from agricultural and livestock sources amounts to only 5 percent, and they may be designated local taxes. Among this family of taxes, revenue from levies on special products (with the exception of major tax items) should be allocated directly to the prefecture, county (city), or lower levels. This will increase local revenues and extend greater financial support to agriculture and enhance rural construction projects so that what is taken from the farmers is used in the interests of the farmers.

4. According to central unified regulations, local governments may impose taxes on other suitable items to meet the needs of local economic and social developments. These may include banquet taxes, special consumption taxes, stamp taxes, urban public utilities surtaxes and education surtaxes. Local governments should explore new sources of tax revenues but should avoid excessive taxation.

C. Revenue shared between central and local treasuries: this revenue together with central taxes should guarantee that the central government is getting the bulk of the country's tax revenues so as to facilitate fiscal management at all levels.

From 1951 to 1958, revenue from industrial and business operation taxes and income tax was shared proportionally between the central and local governments. Revenue from commodity circulation and merchandise taxes was designated for redistribution by the central government to regions with deficit income. Between 1959 and 1977, with the exception of tariffs, which were central taxes, all tax revenues were shared proportionally between the central and local governments. Between 1978 and 1984, with the exception of central tax (tariffs) and five local taxes, all other tax revenues were proportionally shared or redistributed among the central and local governments. Shared revenues now account for more than 50 percent of all national revenues. China has repeatedly allocated the bulk of tax revenues either to the central government or to be shared between or redistributed among central and local governments. This is partly attributable to the original centralized financial administration system, but it should also be noted that there are many factors affecting central and local revenues and expenditures and that the situation is complicated. Revenue sharing is more conducive to mobilizing central and local

enthusiasm; it facilitates prompt redistribution of financial resources. As long as our nation does not have independent central and local tax collection organs, revenue sharing remains a practical solution.

In foreign countries, tax revenues are often shared between central and local governments. For example, the United States implemented revenue sharing in 1972. The federal government allocates revenues to the states based on state population, tax receipts, average income, city and town population, income tax receipts, and other figures. China also shares revenues proportionally based on distinct local characteristics (distinctions) are made between coastal open cities, rich and poor regions, and old, remote, and developing regions), population distribution, average income, budgeted capital construction investments, as well as the number of fixed staff in science, education, culture and public health undertakings and the amount of fixed administrative expenditures.

Finally we should point out that in order to allocate the bulk of tax revenues to the central government to reinforce macro control, major tax items and certain special behavioral taxes should be designated central taxes. At present the collection of these taxes is dependent on local authorities, hence to mobilize local enthusiasm, these tax revenues should be shared. Under the premise of unified guidance we should consider setting up independent central and local tax collection organs. Central tax collection authorities should set up their own collection centers or agencies to collect central taxes and shared revenues, and to centralize tax collection or exemption authorities. Then major taxes and certain behavioral taxes (goal-oriented taxes) can be classified as central taxes.

II. The Scope of Central and Local Expenditures

Public finance is a function of the national government and is the centralized allocation of social goods. The functions of the national government are comprised of the functions of the central and the local governments of all levels. The scope of expenditures at each level is limited by the necessary amount of public resources which enable the government to perform its functions. Expenses for purposes other than the performance of government functions should not be considered under public expenditures. After the state-owned enterprises assumed responsibility for their own profits and losses, and following the implementation of the rural output-related responsibility system, previous public investments in economic construction projects were in part redesignated as recoverable expenditures; the remaining investments are borne by the production and operating units' own funds, bank loans, foreign investments, lateral economic coalitions, and other pooled resources. In short, the scope of public finance is limited to satisfying society's public needs.

China is a socialist country dominated by a socialist state-owned economy and mixed with diverse economic elements. Ours is also a developing country with vast territory, large population, and many nationalities. The developments are imbalanced, even disproportionate, among the east, west, and central regions. We are striving to achieve socialist modernization by the end of the century, but our energy resources, transportation, communications, and natural resources and other infrastructure are inadequate; our basic industries, and our

agricultural, scientific, and educational undertakings are deficient; and we also lack construction capital. Under the circumstances, the scope of central expenditures should include: 1. Investments in major economic construction projects at the central level, and outlays for national commodities reserves. Here, the central government should consider the rational industrial structure and the distribution of productive capacities and make essential investments in key construction projects which are meaningful and substantial. 2. Various central government undertaking and administrative expenditures (administrative and foreign relations expenditures), funding for national defense and combat readiness, and foreign aid. 3. The central government must have sufficient resources to allocate subsidies or special appropriation to certain regions, especially the old, the developing, the remote, and the impoverished regions. 4. National debt payments.

The local governments are responsible for local economic construction projects and infrastructures, local administrations and management, cultural, educational, scientific and public health undertakings, civil defense, environmental protection, pensions, and social welfare. If the government is to perform these functions properly it must have sufficient public funds, and that is the factor limiting the scope of local government expenditures. From now on, budgeted investments of local governments should concentrate on satisfying public needs, that is, concentrate on infrastructure construction projects, environmental protection, nonprofit undertakings and other social and ecological undertakings, and leave profit-oriented investments to the enterprise units' own resources, bank loans, joint ventures, or other pooled resources. Local fiscal policies should encourage, guide and promote other channels of construction capital or otherwise influence their investment direction by offering subsidies, financial aid, or interest discounts.

Generally speaking, the expenses incurred by the central and local governments in the performance of their functions, in principle, should be borne at the respective government level. Expenses incurred in the performance of functions which span two or more levels of governments should be shared. A superior organ should subsidize a subordinate organ in case of deficits, if the budget were previously ratified at the higher level; they should also provide the subordinate organ with special appropriations.

Based on the above principle, a lower level budget must distinguish normal expenses from extraordinary expenditures. Normal expenses include those general and regular expenses incurred in economic construction projects, cultural, educational, scientific and public health undertakings, pension and welfare payments, and other administrative expenses during a normal year. Normal expenditure on each of these items should not be below national set standards. Fixed subsidies allocated by a superior organ are deemed normal expenditures. Extraordinary expenses include those relatively large capital construction investments which are in the domain of a lower level government but are controlled by the superior organ. Special appropriations of a superior organ are deemed extraordinary expenditures.

Experience has shown that effective fiscal policies at the lower level require unified financial and administrative power. Normal expenditures of subordinate

organs should be controlled by the subordinate organs. Excess control over funding by superior organs will interfere with fiscal plans of subordinate organs, adversely affect its budgeting process, and hinder attempts to break away from centralized planning. On the other hand, extraordinary expenditures of subordinate organs may be administered by their superior organs to enhance macro control: First, rational control of the scale of investment in capital construction is the key to the success of macro control. Major investments in capital construction is the key to the success of macro control. Major investments in capital construction crucial to the national economy should be decided by the central authorities. Local investments beyond a certain extent may be managed by the provincial government. No capital construction investment controlled by a superior organ should be included in the normal expenditure of a subordinate organ. Second, relief for catastrophic natural disasters, major subsidies for drought relief and flood control, developmental funds to support underdeveloped regions, and subsidies for border installations, regardless of whether the fundings are temporary or permanent, must be spent for those specific purposes by the local governments.

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FINANCE, BANKING

REFORM OF WORKING CAPITAL MANAGEMENT

Beijing CAIZHENG YANJIU [FISCAL SCIENCE] in Chinese No 9, 1986 pp 19-22

[Article by Tian Shui [3944 3055]: "Persist in the Correct Direction of Working Capital Management Reform"]

[Excerpt]

I

When there are not enough working capital sources, the Ministry of Finance issues additional credit funds to ensure a balance in credit incomes and expenditures, reflecting the division of labor between and cooperation with itself and the banks. Under the highly centralized planning management and fiscal systems in which the state monopolizes incomes and expenditures, this kind of management system is instrumental in ensuring enterprise production and circulation. In practice, however, it has also revealed such drawbacks as overcentralization and excessively rigid control. 1) Enterprises' basic working capital requirements are met by government grants. Since these grants are available to the enterprise free, the latter has no incentive to economize on their use. The effectiveness of credit and interest rates as economic levers is also undermined. 2) There has been much argument among the three parties--enterprises, the Ministry of Finance, and banks--when it comes to setting quotas and determining the criteria for result evaluation. Division of labor becomes each going its own way and all three are distracted from their task of managing working capital effectively. 3) Since quota-setting involves a lot of work, it was decided to make one quota run for several years. Consequently, quotas were not adjusted in time to keep pace with changes in production and circulation. Hence "quotas are inflexible, while production changes." In short, the management method led to the shortcoming of "eating out of the common pot," serious overstocking, and slow turnover. Every time an enterprise is liquidated, the state has to write off a considerable sum of working capital.

To eliminate the defects of "dual supply, separate management," various reforms have been undertaken over the years. For instance, in the 1950's banks were allowed to contribute a certain portion of loans. In 1959-61, all working capital was converted into loans in an attempt to improve its results through the use of credit and interest rates as levers. Under the highly

centralized planning and financial systems, however, interest rates have little bearing on the material interests of an enterprise, so this change had only marginal effects.

The restructuring of the economic system got under way after the 3d Plenum of the 11th CPC Central Committee. Over the past few years, a wave of reform occurred in the planning, fiscal, financial, materials, price, and labor systems. Enterprises have been given more autonomy and are in the process of becoming independent, autonomous economic entities. In the wake of reform, profits retained by enterprises and depreciation funds kept rising. Not only can some of these funds be used for short-term cash flow purposes, but enterprises have also become capable of meeting part of their own working capital requirements on their own. Banks, on their part, have found society to be an increasingly abundant source of capital as enterprises get to retain more and more of all kinds of funds and people's incomes rise rapidly. This is a far cry from the old days in the prereform past when the Ministry of Finance had to make additional allocations to cover even above-quota working capital. In the 3-year period 1983-86, enterprise and private citizen deposits in banks alone rose more than 50 to 60 billion yuan each year on the average in contrast to a few billions of yuan in additional working capital issued by the ministry. This clearly proves that banks are fully capable of centrally managing working capital and playing a more active role in social reproduction activities. As for capital utilization, at a time when production, sales, and prices are partly deregulated and the market function has been strengthened, whether an enterprise economizes or wastes its working capital has become more a function of its policy and management than of the reasonable restraints imposed by the national plan (such as national allocation), as was the case in the past. This series of changes demonstrates the inevitability of reforming the "dual supply, separate management" system of managing working capital, which went hand in glove with the old system. It is not only feasible for banks to centrally manage working capital, but also necessary for in-depth economic reform.

II

Under the centralized bank management of the working capital of state-owned enterprises, the state authorizes the People's Bank of China to devise a working capital management system, appraise and ratify working capital quota (plan) for enterprises, and evaluate the effectiveness with which enterprises use funds. It also demands that the bank establish and perfect a responsibility system for working capital management and help enterprises improve the efficiency with which they deploy capital, using both administrative methods and the lever of credit, while satisfying the reasonable capital needs of production development and circulation expansion. The main elements of the central working capital management system drawn up by the People's Bank of China in 1983 are:

A. As independent economic entities, enterprises should have a certain amount of working capital of their own. For this reason, working capital already allocated to enterprises by the government will be retained by enterprises for their use. Henceforth, however, the Ministry of Finance will not grant

additional working capital to enterprises. Enterprises must pay for it. After the taxes-in-lieu-of-profits system is in full operation, the government should levy a use fee.

B. Reform the method whereby working capital quotas are checked and ratified. In the past, the quotas were determined as absolute numbers. They are now replaced by rates determined by average advanced sales income percentages (or sales cost percentages) and will be adjusted annually as incomes from sales change. That way working capital quotas change as production and sales earnings change. This solves the old conflict between "fixed quotas, changing production" resulting from the fact that quotas were fixed to last for several years.

C. Reform the evaluation method of the effectiveness with which enterprises use capital, increase the interest rate of or apply a floating interest rate to above-quota (extra-plan) loans. The target handed down by the government for accelerated working capital turnover will still be monitored as part of the command plan. There will be a uniform interest rate for loans within the plan quota, while low-interest loans within the quota will be abolished. On the other hand, above-quota loans will be charged a higher interest rate. Alternatively, a "floating interest rate" system may be adopted. Under such a system, enterprises which overfulfill the national target for accelerated working capital turnover can pay interest at a lowered rate and will be allowed to keep for its own use all the interest payments thus saved, whereas an enterprise which fails to meet the target will have to pay higher interest rates, the extra expenses thus incurred to come from profits retained by the enterprise. That way the turnover of working capital by enterprises will be expedited.

D. Different interest rates should be applied to different industries, enterprises, and products, based on the government's economic policies. Some should be accorded preferential interest rates, while others should have their rates lowered or raised appropriately. Interest rates should be increased for enterprises whose growth government economic policy seeks to curb and for backward enterprises which compete with advanced large industries for raw materials and energy.

E. Establish a system whereby enterprises supplement their working capital on their own. After the taxes-in-lieu-of-profits system went into effect, enterprises have gradually beefed up their financial resources. Part of the working capital required by production development and circulation expansion should come from an enterprise's own accumulation. When a locality or sector raises funds on its own to build a new factory, it must have available 30 percent of the working capital in addition to capital investments.

Because of insufficient publicity in our daily work about the central bank management of working capital, which is a major piece of reform, some comrades often equate it with wholesale credit and refer to it as the latter. During 1959-61, China converted all working capital into loans. Similar pilot projects were also carried out in 1979. What we did then was this. 1) What used to be allocated to enterprises as working capital was completely converted into bank loans to be issued by a bank. Enterprises did not have

their own working capital. 2) The Ministry of Finance remained responsible for determining the working capital quotas of enterprises. Any increment was to be covered by appropriations from the ministry to the bank which would then issue them as loans. In other words, the wholesale credit system of the time was still based on the "dual supply, separate management" system. The only difference was that what used to be appropriated to enterprises by the ministry was now converted into loans for supply and management purposes. The failure of the wholesale credit system to extricate itself from the straitjacket of the "dual supply, separate management" system was dictated by the highly centralized planning and fiscal systems existing at the time. Enterprises complied with mandatory planning in everything they did and had little operational or financial autonomy. Whatever additional deposits the bank managed to attract every year did not even cover the additional above-quota working capital requirements. Clearly, the central bank management of working capital was not practical under these circumstances. As an integral part of the overall economic management system, the working capital management system must operate within the confines of the larger institutional framework. Only when the in-depth restructuring of the economic system has advanced to a certain stage can we overcome the old "dual supply, separate management" system and really achieve a transition to a system in which the bank centrally manages working capital.

The central management of working capital by the People's Bank is superior to other working capital management systems in many ways. It has tremendous significance for establishing a financial self-management system for enterprises under which they would assume responsibility for their own profits and losses, for making the most of credit and interest rates as economic levers, and for further invigorating the economy.

A. It goes hand in hand with the reform of the enterprise profit distribution system and represents a major step forward in the effort to devise a financial autonomy system for enterprises under which they would assume responsibility for their own profits and losses. The central bank management of working capital provides that apart from funds originally allocated by the ministry to an enterprise, which the latter can keep for its own use, part of the working capital of the enterprise must be drawn from its own profits. This will help enterprises develop a certain capacity to take risks and handle unexpected losses. In the past, overstocking due to enterprise mismanagement and losses such as write-offs and price cuts caused by overstocking were made good with state funds. Today enterprises are made liable for them. This is the first step toward breaking the habit of "eating out of the big pot" and establishing enterprise accountability.

B. It strengthens the effectiveness of credit and interest rates as levers. Substitution of taxes for profits has steered the management of working capital toward enterprise financial accountability and sensitized enterprises to the use of credit and interest rates as levers. In combination with floating interest rates, varied interest rates, and the use of interest rates as rewards and punishments, this will guide enterprise behavior even more effectively, heighten their concern to economize on capital out of

consideration for their own material interests, and make them work hard to accelerate capital turnover, reduce interest spending, and increase profits, including the share they get to keep.

C. This system adapts to economic development flexibly, ensures a supply of working capital, and improves management. With the bank in overall management of working capital, gone are the various conflicts in the old system which separated what is a coherent process--working capital circulation--into two parts, handing quota management to the Ministry of Finance and above-quota management to the People's Bank, and turned division of labor into fragmentation. Moreover, lending is more flexible than allocation by the ministry. The capital quota can be adjusted annually in accordance with changes in the sales earnings plan to make sure that legitimate working capital needs of enterprise production and expanded circulation are met.

III

As a product of the in-depth restructuring of the economic system, the central management of working capital is far superior to either the "dual supply, separate management" system or the wholesale credit system. However, we must also see that a reform measure cannot demonstrate all its virtues the moment it appears. It will be some time before the public gradually adjusts to it and before we make the necessary changes in the management work concerned and related measures get under way. Therefore, we must not deny the necessity for the central management of working capital just because of some temporary lapses and occasional shortages of working capital.

There was a shortage of working capital in the second half of last year and early this year. It has complex reasons, notably the following:

A. Overinvestments in fixed assets. Investments in fixed assets throughout society rose 35 percent in 1985 compared to the previous year, while investments in fixed assets by state-owned units increased 42.8 percent over a year ago, far higher than the 16.4- and 12.3-percent gains in the GVIAO and national income, respectively, in the same period. Overinvestments in fixed assets necessarily mean less working capital, on the one hand, and intensify the demand for working capital, on the other, thereby creating a shortage of working capital in two ways.

B. The sense of competition generated by the sharp growth last year led to overstockpiling and overproduction. Some enterprises tried to outdo one another blindly. Everybody--enterprises trying to position themselves for increased production and construction units competing for projects--scrambled for materials and stockpiled frantically. They paid no attention to market demand and kept up production at an unrealistically high level. The result was swollen inventories and a rapid growth in the share of used working capital. As these funds were tied up temporarily, the shortage of working capital was worsened.

C. The credit management system is deficient. In tightening the money supply, we often err by applying rules across the board. The existing fragmented management system and the partial application of the system of linking lending

to deposits make localities reluctant to transfer funds outward, only inward. This makes for inflexible allocation of funds. Of the loans issued, too many were loans to finance fixed-asset investments, turning short-term funds into long-term ones. At a time when the government is trying to tighten the money supply, it is difficult to control long-term loans and easier to control short-term loans. As a result, working capital loans were held in check. In addition, rules were applied across the board. Consequently, enterprises were strapped for working capital. The banks do not do a good job in account settlement. Defaulting on loan repayment is becoming more and more widespread. When someone is in arrears with loan repayment, he makes it impossible for his creditor to repay his own debts to somebody else. This too creates cash-flow problems for enterprises.

Certainly the central management of working capital by banks is not perfect. Enterprises, for instance, have become more and more dependent on banks, which may lead to their "eating out of the bank's common pot." At a time when the credit system is still imperfect, specialized banks try to outlend one another. As soon as the money supply is tightened, there is the tendency to apply one rule to all situations. These are the inevitable manifestations of the lack of coordination between various reform measures, which, hopefully, will be worked out as the restructuring of the economic system becomes more thoroughgoing. We cannot blame reform for these problems, let alone revert to the old way of the Ministry of Finance doling out working capital. Persisting in the correct direction of the reform of the working capital management system and breaking the habit of "eating out of the common pot" are what we must do in order to use capital economically and soundly and accelerate working capital turnover.

12581

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FINANCE, BANKING

BRIEFS

SHANGHAI ISSUES BONDS--Financial bonds issued in 1986 by the Shanghai branch of the Industrial and Commercial Bank have been enthusiastically received by the public. By late August, all 40 million yuan in bonds have basically been subscribed. The purpose of the bond issue is to raise funds in society to make special loans to projects and enterprises with good economic results. The maturing period of the bonds is 1 year and the annual interest rate is 9 percent. Interest earned on these bonds will be exempt from personal income tax. Purchasing of the bonds is limited to individuals. As a convenience to the masses of on-the-job workers, units arranged to purchase the bonds in advance on behalf of their employees. After the news got around, many units rushed to the bank to place orders. But there was only a limited number of bonds, not enough to satisfy all the demand. [Zheng Youjian [6774 1635 0256] [Text] [Shanghai WEN HUI BAO in Chinese 11 Sep 86 p 1] 12581

CSO: 4006/96

SMALL-SCALE ENTERPRISES

FUJIAN'S SINO-FOREIGN TOWNSHIP, TOWN ENTERPRISES

Beijing NONGMIN RIBAO in Chinese 12 Aug 86 p 1

[Article by correspondents Huang Liangtian [7806 5328 1131] and Chen [7115 3057 6540]: "Fujian's Sino-Foreign Township and Town Enterprises Developing Rapidly; They Have Absorbed 74 Million Yuan in Foreign Capital Accounting for 51 Percent of All Investment in Sino-Foreign Township and Town Enterprises; Exports Were 60 Percent Higher During the First Half of This Year Than Over the Same Period Last Year]

[Excerpt] In recent years, Fujian Province has taken fullest advantage of its many overseas Chinese to bring in capital, technology, equipment, and advanced management techniques from abroad. It has seen the development of many export-oriented enterprises which start off from an advanced state and develop very rapidly. There are now 133 Sino-foreign township and town enterprises province-wide, one-fifth of all Sino-foreign joint ventures in Fujian and approximately 15 percent of all Sino-foreign township and town enterprises nationwide. These enterprises have brought in 74 million yuan in foreign capital, 51 percent of all investment in Sino-foreign township and town enterprises province-wide. These provinces export nearly 500 kinds of products to several tens of countries on all the different continents. During the first half of this year, gross value of exports from the province's township and town enterprises amounted to 134 million yuan, 60 percent more than the value during the same period last year.

Over 90 percent of Fujian's Sino-foreign township and town enterprises are run with the cooperation of Hong Kong, Macao, and Taiwan compatriots, and overseas Chinese. They all carry out a policy of "importing, manufacturing for export, increasing exports, and increasing foreign exchange earnings." They have worked hard to develop an export-oriented, open door economy. Of the 130 [as published] joint enterprises, ten of them market all their products overseas, 55 sell 50 to 90 percent of all their products abroad while 25 enterprises sell less than 50 percent. Fujian's joint venture township and town enterprises rely on quality and reputation to capture the market. Ever since 1979, the Jinjiang industrial district has sold its products to Italy, Canada, Japan, and other countries. An Anxi County bambooware factory sells its products to more than 30 countries. Many of these enterprises have won awards from MOFERT for their products, as well as international awards, while others have obtained registered trademarks in foreign countries.

Fujian's Sino-foreign township and town enterprises can now be found not just along the coast but also in the interior mountainous areas. Some of the poor counties also have Sino-foreign joint ventures. During the first half of this year, many of the enterprises in the more isolated regions have attracted foreign investors with their local resources, labor, and traditional handicraft skills. Fujian has also used its superior equipment, technology, and products to help the economies of interior regions and provinces.

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SMALL-SCALE ENTERPRISES

GUANGDONG DIVERSIFYING TOWNSHIP, TOWN ENTERPRISES

Guangzhou YANGCHENG WANBAO in Chinese 19 Aug 86 p 1

[Article by Luo Wenjin [5012 2429 6930], Xu Qizhuo [6079 2601 0587] and Rong Guangfeng [2837 0342 6912]: "Guangdong Developing Township and Town Enterprises in Diversified Forms; Efforts To Set Out on Our Own Characteristic Road; Provincial Conference on Township and Town Enterprises Transmits Central Committee Decisions: in Next 5 Years Country to Have 100 Million Peasants Shifting from Planting to Secondary and Tertiary Occupations"]

[Text] This afternoon Guo Rongchang [6753 2837 2490], deputy secretary of the Guangdong Provincial CPC Committee, conveyed the most recent decision of the Central Committee to the provincial conference on township and town enterprises: between now and the year 2000, preparations will be made to transfer another 100 million laborers now engaged in rural planting over to secondary and tertiary occupations; the focus will be on developing township enterprises.

Guo Rongchang stated that the Central Committee repeatedly stressed that developing township and town enterprises is a necessary means of vitalizing China's rural economy and an important way to enrich the peasants. In terms of the country as a whole, over the next 15 years an average of more than 6 million rural laborers each year are to be shifted over from cultivation to township and town enterprises and secondary and tertiary occupations. Thus Guangdong's township and town enterprises should and must undergo even greater and faster development.

At present the five levels of the province's township and town enterprises—prefectural, town, village, joint-household, and household—number 730,000, employing 4.2 million people, double the figure in 1980. In the first half of this year the province's township and town enterprises had a total income of 9.25 billion yuan, an increase of 35.6 percent over the same period last year, and turned over more than 400 million yuan in taxes to the state, a 10-percent increase over the same period last year.

Guo Rongchang indicated that even though the province's township and town enterprises grew tremendously during the Sixth 5-Year Plan, they lag far behind the more advanced provinces like Jiangsu and Zhejiang. Guo Rongchang presented in detail to those attending the conference the successful experiences of the

"southern Jiangsu" model of township and town enterprises developed in southern Jiangsu and the "Wenzhou model" of household industry and commerce developed in Wenzhou, Zhejiang, which have been repeatedly approved by the Central Committee. He summarized the successes achieved by the "Zhujiang Delta model" of Guangdong's township and town enterprises that has become known as the "five wheels (prefectural, town, village, joint-household, and household) turning together, characteristically export-oriented." He fully approved the "Shunde model" dominated by prefecture-run mainstay industries, which spur on the development of other levels of township and town enterprises; the "Nanhai model" dominated by the "three-horse cart" of prefectural, town, and village enterprises, which spurs on joint-household and household enterprises, the five levels developing together; the "Dongwan model" utilizing geographical advantages to bring in foreign capital, technology and qualified personnel, vigorously promoting three forms of import processing and compensation trade and enthusiastically developing export-oriented enterprises; and the "Wuchuan model" dominated by household and joint-household enterprises accelerating the development of a rural commodity economy. Guo Rongchang requested that all areas in the province conscientiously study and draw lessons from the successful experiences of these areas, proceeding to develop township and town enterprises on the basis of actual, local conditions, and moving along their own characteristic path.

Guangdong Province's deputy governor, Ling Botang [0407 0130 2768], presided over today's meeting in the hall of the provincial people's government. The conference is to last 5 days.

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SMALL-SCALE ENTERPRISES

HEBEI'S TOWNSHIP ENTERPRISES STRESS INTENSIVE GROWTH

Beijing ZHONGGUO XIANGZHENQIYE BAO in Chinese 2 Aug 86 p 1

[Article by reporter Ma Qingqiang [7456 3237 1730]: "Hebei's Township and Town Enterprises Extensively Strengthen Basic Work; Stressing Intensification Increases Results; Improving Management Strengthens Logistical Services; During the First Half of This Year, Hebei's Township and Town Enterprises Earned a Total of 8.8 Billion Yuan and Boasted an Industrial Output Value of 6.3 Billion Yuan, Which Levels Represent Increases of 18.01 and 20.67 Percent, Respectively, over the Same Period Last Year"]

[Text] An outstanding characteristic marking the development of Hebei's township and town enterprises [TTEs] since the beginning of this year is that the previous practice of expanding and starting new projects has been changed to emphasizing intensive growth and strengthening enterprise basic development, thus improving the quality and economic results of enterprises. In the first half of 1986, Hebei's TTEs earned a total of more than 8.8 billion yuan, registered 6.3-plus billion yuan in industrial output and remitted over 300 million yuan in taxes to the state, which figures represent increases of 18, 20 and 20.6 percent, respectively, over the corresponding period in 1985.

Since the beginning of 1986, the Hebei CPC Committee and government have strengthened leadership over TTE work, and the province's TTE Bureau has strengthened the specific guidance it provides enterprises and paid extensive attention to and enhanced basic TTE work.

First of all, in guiding ideology, many prefectures and cities this year have clearly pointed out that TTEs should achieve five changes--namely, a change from the previous emphasis on initiation of new projects to a focus on the intensive growth of enterprises; a change from the previous emphasis on output value to stressing improvement of economic results; a change from the previous emphasis on production of single products to stress on whole lines of products; a change from the previous emphasis on the processing of non-agricultural products to concentration on processing industries employing farm and sideline products as raw materials; and a change from the previous reliance on self-development to bringing in talented people, technology, and funds from urban areas and organizing extensive horizontal economic links.

This year, Hebei's TTEs used about 500 million yuan for technological transformation. Especially prominent in this work were a number of key enterprises which attached great importance to the tapping of potential, to upgrading and to renovation. The Jixian County Radiator Plant organized its technical forces to design and produce smelting equipment and molding machines, eliminated obsolete equipment, and invested 20,000 yuan to purchase such testing equipment as toolmakers' microscopes and micrometers. The Damagu Circuit Board Plant of Huanghua County this year plans to invest 6 million yuan to equip the entire plant with new technology and advanced equipment.

Hebei's TTEs have also strengthened enterprise management and employee training. So far, over 95 percent of all township and village enterprises in the province have established and perfected various management systems and leadership responsibility systems, and all localities have carried out rural party consolidation and in the process have earnestly solved a number of problems associated with the practices of taking advantage of one's power to obtain contracts, wearing out equipment, dividing up all profits and consuming all resources. About 500,000 of Hebei's TTE employees take college courses through TV programs and correspondence schools. Shijiazhuang's four counties and two districts have trained nearly 20,000 key technicians of various types.

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SMALL-SCALE ENTERPRISES

STABLE DEVELOPMENT OF HENAN'S TOWNSHIP, TOWN ENTERPRISES

Output Value Increases

Beijing ZHONGGUO NONGCUN JINGYING BAO in Chinese 30 Aug 86 p 2

[Article by Li Jianyi [2621 1696 0001]: "Henan Province's Township and Town Enterprises Developing Stably; Total Output Value This Year Expected to Pass the 20 Billion Yuan Barrier"]

[Excerpt] Henan Province, enthusiastically implementing the relevant programs and policies of the CPC Central Committee and the State Council, is concentrating on the strategic measure of developing township and town enterprises to vitalize the rural economy and "redoubling output to bring wealth," which has led to outstanding progress being made by township and town enterprises. In 1985, the number of township and town enterprises in the province grew to more than 1,197,000 putting it in first place nationwide. Total output value reached 16.5 billion yuan, jumping from tenth place nationwide in 1982 to sixth place. The number of counties in the province having output values over yuan went from 28 in 1984 to 63; Gong County, with the highest output value, reached 750 million yuan.

As is widely known, Henan's economy is really undeveloped; 1985 was another year in which township and town enterprises had difficulty growing. So how was it that Henan's township and town enterprises were able to achieve such outstanding growth?

The various levels of party committees and governments in Henan, and especially the vast numbers of cadres in the Office of Township and Town Enterprises, dealt with this new situation of scarce funds by facing the facts and taking positive steps, developing their pioneering spirit, finding ways to create vigor out of scarcity and seeking rapid but stable new experiences. They relied on the masses to pool their money to run enterprises, focusing on household- and joint-household-run enterprises, with five wheels turning together for the multilayered development of township and town enterprises. They adhered to the "three backups" and the "four imports and one alliance," i.e., being backed up by large cities, large enterprises, and research units; and bringing in funds, technology, qualified personnel, and equipment, and running enterprises jointly. They took an early step toward horizontal economic alliances.

As of this year Henan Province is further relaxing its policies to improve service before and after production so that the province's township and town enterprises will continue to move forward stably and harmoniously. As of the end of June, the number of township and town enterprise units rose 20 percent over the same period last year, and total output value rose 16 percent; it is forecast that total output value for the year will surpass 20 billion yuan.

Quality Improves

Beijing ZHONGGUO NONGCUN JINGYING BAO in Chinese 30 Aug 86 p 2

[Article by Li Jianyi: "Improving Product Quality, Increasing Exchange-Generating Capacity; Last Year Henan's Township and Town Enterprises Generated \$60 Million"]

[Text] Henan's township and town enterprises are resolutely stressing product quality control and vigorously developing the production of export commodities; they now have many products being sold in nearly 100 countries and regions. In 1985 they generated approximately \$60 million in foreign exchange. Township and town enterprises are truly becoming an important force in Henan's exchange-generating exports.

Henan Province is located on the Central China Plain, giving it convenient communications; the province has abundant underground resources that can be processed by township and town enterprises and exported to generate foreign exchange. The provincial Office of Township and Town Enterprise Management believes that with the fierce competition on the international market and with stringent quality requirements, only products of very solid quality will be able to break in. They are resolutely stressing basic groundwork to improve product quality and have formulated provisional procedures for "Product Quality Control" and "Selection of Name Brand Products" and are enthusiastically engaging in activities aimed at meeting standards and creating superior products. In 1985 the province had more than 200 products that had been awarded certificates of superiority and excellence at the provincial level and above. These products have stood up under testing in international markets overseas; according to incomplete statistics, more than 200 of Henan's township and town enterprises are now exporting more than 300 different products, and several of them have received exemptions from export inspection.

The key products now being exported by Henan's township enterprises include: refined molybdenum powder, bauxite, marble, granite, LITHOPONE, dangfa, [2909 4099], sausage casings, hog bristles, bone meal, formaldehyde, silk, carpets, jade carvings, woven straw articles, hides and furs, and vegetable oils. Some machine products are also being developed from crude and clumsy toward high-quality and precision products. Brickmaking machinery, oil pumps, batteries, starters, hardware and tools, and so on produced by township and town enterprises are also being introduced on the international market. Molybdenum, silicon iron, jade-like stones, andalusite, and other mining products are now moving toward being exported as finished and semifinished products rather than as raw materials as they were in the past. Furthermore, more businessmen are coming from outside Henan to tour and discuss trade and investment, and the township and town enterprises are becoming important trading partners of these outside businessmen.

AGRICULTURE

SPARKS PLAN FEASIBILITY STUDIES URGED

Taiyuan NONGYE JINGJI XIAOGUO [AGRO-ECONOMIC RESULTS] in Chinese No 3, 25 Jun 86 pp 1-4

[Article by Liu Tianfu [0491 1131 4395], Chinese Academy of Social Sciences, and Luo Zuomei [5012 0155 5019], Beijing Institute of Agricultural Mechanization: "We Must Emphasize Feasibility Studies for the 'Sparks Plan'"]

[Text] The State Scientific and Technological Commission formulated the "Sparks Plan" [SP] in order to implement the general policy of the central authorities, which policy states, "We must rely on science and technology [S & T] for economic development, and S & T must serve economic development." This plan will promote progress registered in S & T by township and town enterprises [TTEs] and revitalize local economies. If properly implemented, the plan will be of great importance in our efforts to quadruple China's gross industrial and agricultural output value by the end of this century and will produce both immediate and long-term benefits. But to achieve these results, we must properly conduct feasibility studies [FS] before we implement the plan.

I. FS Provide an Important Basis for SP Formulation and Implementation

FS are a practical discipline which has arisen in the past few decades and has long been widely used overseas, especially in the United States and the countries of Western Europe. The application of FS to Chinese industry has attracted much attention and is beginning to show results, and we have just begun conducting such studies for agriculture, achieving fairly good results in some regions and sectors.

FS involve comprehensive analysis and evaluation of technical and economic problems and are conducted before decisions are made on investment projects; are an important task which must be done before investment is made and construction begins; are used to analyze project technical feasibility, potential profitability and risk; and thus facilitate proper decision-making. FS have developed into an applied science which uses S & T, technological economics, systems engineering, market forecasting, information science, psychology, policy studies, mathematical statistics, modern management,

scientific policy-making, professional consulting and other fruits of scientific research to ensure attainment of optimal economic results in each project.

In the past, investment in all industries and in all agricultural sectors frequently was made blindly and arbitrarily, and we did not conduct preliminary investigation and discussion of the feasibility of investment projects. On many development [DPs], surveys, design work and construction were carried out simultaneously, and decisions were made first and verified and evaluated only afterward. And sometimes decisions were made when people got excited about something and everyone then jumped on the bandwagon. All of these practices have caused major blunders in investment decisions and serious economic losses. Once made, such blunders very often would be excused as "paying tuition" or "the cost of being politically correct," put aside without being settled and written off with the stroke of a pen.

In the past few years, following the restructuring of China's economic administrative system, we have liberalized economic policy, expanded domestic and external economic and technical exchanges, implemented a system of providing loans for capital construction projects, permitted foreign investment and used loans from the Agricultural Bank of China for the establishment of TTEs or of enterprises run by several households. With the growth of the rural commodity economy, objective considerations required that FS be carried out for all DPs, so the state ordered that such studies be conducted. This has spurred the development of agricultural FS throughout the nation. The experiences of the past few years have stirred up serious interest in agricultural FS among all quarters. Localities across the nation have conducted much work in this area and produced a number of studies and results, and many specialists and scholars have examined FS methodology and published a number of works on the matter. In terms of methodology and practice, these developments have provided favorable conditions for the further development of project FS. We should take full advantage of these conditions to conduct FS for TTE technological DPs [TDPs] across the nation and thus provide policy bases for SP formulation and implementation.

II. The Position and Role of FS in the SP

The SP requires that we concentrate on "short, level, and speedy" TDPs during the Seventh 5-Year Plan and that we develop for TTEs a number of demonstration production lines outfitted with advanced, practical technology. We must also establish demonstration centers across the nation that are outfitted with complete technological systems, that help develop productive forces and that can provide demonstration and extension services. And we must demonstrate and disseminate technology so as to train a large corps of TTE specialists. To ensure that this magnificent plan avoids blindness and arbitrariness and obtains the results expected of it, we must conduct FS before we implement any projects.

To formulate and implement the SP, we will have to resolve many problems. For example, in formulating the plan we must decide which projects to select, what kinds of production lines to employ and where to locate demonstration sites. And the siting of demonstration centers, for example, itself also presents

problems: In which direction should enterprise production develop? What are the comparative advantages of a region in terms of resources? And what about market demand, funding, loan terms, investment environment, energy consumption, production technique, technology and equipment, the development of intellectual resources, the ecological environment, the quality of technical management, evaluation of investment results, the linkage of macro- and microeconomic results and the like. Failure to resolve these issues in a coordinated fashion not only will reduce the effectiveness of the SP, but will also impede the healthy growth of TTEs and cause enormous political and economic losses for the state. Therefore, we should include FS when we implement the SP and give FS, an important type of work, the attention they properly deserves.

In summary, FS should focus on providing prediction; aim for better economic results; conduct systematic and comprehensive technical and economic analysis of developing social needs, the level to which technology has advanced, feasibility in terms of basic factors and conditions, and the means by which we can ensure rational economic development; accurately reflect objective contradictions and problems; and provide a scientific basis for project target selection.

In accordance with their procedures and content, FS can perform the following functions in SP formulation and implementation.

1. By conducting wide-ranging studies of investment opportunities for the TTE development, FS can propose a number "short, level, and speedy" TDPs and provide a basis for the preliminary selection of SP DPs.

2. We can conduct preliminary FS of and provide reports on each of the projects tentatively selected for the SP and thus provide a scientific basis for revising SP TDPs.

3. By conducting detailed FS of TDPs already selected for the SP, we can provide a basis for decisions on whether or not to revise and on how to implement projects.

4. Once we have established a solid foundation in project FS, we can provide for the SP a basis for the selection of demonstration production lines to be outfitted with advanced and practical technology, for the siting of demonstration and extension centers and for predicting the number of specialists needed to disseminate and demonstrate new technology.

The SP is multitiered and will be implemented at the national, provincial, prefectural and county levels. Across the nation, there will be "SPs" for 29 provinces (and municipalities and autonomous regions), 7 separately administered cities, 185 prefectures (and cities), and 2,136 counties; Altogether, there will be several thousand TDPs—a large number covering a wide range of activity. If the projects are successfully completed and are demonstrated and disseminated, they will produce even better results than imagined. However, to be sure that these projects are truly feasible and give

ourselves a certain degree of confidence in their success, we must initiate FS at every level throughout China and ensure that these studies are high in quality.

The SP is now being drafted for the national level. The projects included at this level have come primarily from departments in the provinces, municipalities, and autonomous regions and from research units and universities and colleges at the central-government level; some of these projects have already been listed in the 1986-1987 development plan. However, most of the evaluations of these projects have focused on investment opportunity and lack sufficient depth and breadth. Initial FS reports have been issued for some DPs, but detailed studies have yet to be carried out. In particular, we still have not conducted comprehensive, systematic, and in-depth evaluations of TDPs from the perspective of enterprises and systems engineering. These evaluations must be carried out so that we can provide guidance for all aspects of project implementation. To ensure that projects included in the national SP require little investment, produce large results quickly and serve as valuable models for demonstration and extension, we must organize our forces to conduct good FS before we attempt to implement projects, and we must provide guidance on FS methodology so as to improve the comparability of the results obtained through such studies.

III. Suggestions on How Properly To Conduct FS Before SP Implementation

A. Establish consulting agencies (or companies) that will conduct project FS, and make these agencies responsible for their own management. Although the SP contains a large number and a wide range of DPs, we still must conduct FS for these projects. To conduct these studies properly, we must deal with the problems of theory, methodology, technology, organizing leadership and maintaining quality, and we must coordinate these studies with the formulation and implementation of the SP by setting up FS consulting agencies at three levels—national, provincial, and prefectural. These agencies can be attached to relevant research units or departments and should be allocated a certain number of technical personnel and be given responsibility for their own management. The agencies would undertake the following tasks.

1. Setting up training classes for FS methodology. National-level consulting agencies should develop FS methodologies suitable for medium and small TTEs and incorporate these methodologies into instructional materials so as to standardize methodology, improve research quality and enhance FS comparability for different projects.

2. Providing technical guidance for the conducting of project FS.

3. Conducting FS for major DPs.

4. Appraising project evaluations and recommending projects to departments formulating all levels of SPs.

B. We must establish and improve needed systems and promote FS.

1. Establishing a system in which FS are conducted before decisions are made. We must reform the current procedures for capital construction and strictly ensure that we conduct investigations and evaluations before decisions are made. Specified FS must be conducted for every TDP or the projects will be not be approved by superior departments. We must make this system a general rule and affix the economic legal responsibility of anyone who commits serious policy blunders by violating this rule.

2. Establishing a system for verifying project feasibility reports. After units undertaking projects have presented their project feasibility reports to superior departments, the latter agencies should conscientiously organize relevant technical and economic specialists to carry out consulting and verification work. The specialists should serve as advisors and consultants and ensure FS quality. And, guided by the socialist ideology of providing comradely mutual assistance, all cooperating units and consulting agencies must clearly define each party's responsibilities, rights and interests.

3. Establishing a system in which loans or investments are granted on the basis of project FS. To enable limited credit (or investment) funds to play a greater role in developing production and to avoid ill-advised loans and mistaken investments, we must require that any TDP requiring state investment or bank loans provide feasibility reports for examination and approval. Otherwise, the needed loans or investment will not be granted.

C. Strengthen basic research so as to improve the accuracy and comparability of project FS. Technical and economic appraisals are the heart of FS and involve appraisal norms and statistical data and parameters. Failure to handle these matters properly will certainly affect the accuracy of FS appraisals. To this end, we should draw up for FS rules and regulations, computational procedures, and program appraisal methods and a system of indices for the economic appraisal of medium and small enterprise DPs. We should also set for each industry appraisal standards, investment-result coefficients, production-cost breakdowns and computation methods, norms for expenditure of human and material resources, and the like. This work will provide a good foundation for the scientific analysis employed in FS.

D. Conscientiously complete FS before building extension and demonstration centers. "Short, level and speedy" TDPs and demonstration production lines outfitted with advanced, practical technology should ultimately be transferred to demonstration centers. The effectiveness with which demonstration centers are established and operated concretely reflect the amount of success we have in SP implementation, which makes it even more crucial that we conduct better FS before building demonstration centers. So we must earnestly conduct proper FS for demonstration centers, focusing on the overall efficiency of the units taking on the projects and analyzing the projects from the angle of systems engineering.

E. Do information work properly. The SP is an enormous, complicated undertaking and involves a wide range of fields, and conditions in the regions implementing the plan differ significantly, so cooperating units must share information, such as information on natural resources, economic management, S & T, the social environment (including guiding ideology) and the like. Only

in this way can we tailor the plan to suit local circumstances, target and resolve problems, and achieve the results expected for the program of establishing mutual cooperation between the city and the countryside. This work is also a prerequisite for SP FS.

F. Strive to maintain overall balance and integration among projects. In implementing SP projects, we must maintain an overall balance among and integrate human, material and financial resources and managerial capabilities. Only in this way can projects be smoothly implemented and attain their expected results. Thus, when conducting FS, we should also undertake planning to maintain an overall balance in inputs and outputs.

G. Select projects scientifically. The selection of SP projects must be done scientifically, based on FS conducted by the units undertaking the projects. Scientific project selection generally includes finding problems, setting policy goals, presenting a variety of plans, comparison of the plans and final selection based on a careful consideration of all relevant facts.

In summary, the concepts and expectations involved in the SP are good, and the plan will certainly play its proper role in promoting the modernization of China so long as we maintain a correct guiding ideology, proceed scientifically, employ effective measures and implement the plan properly.

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AGRICULTURE

INDUSTRIAL SUBSIDY OF AGRICULTURE URGED

Chengdu SICHUAN RIBAO in Chinese 15 Sep 86 p 2

[Article by Zhang Xiaoli [1728 1321 3810] and Liu Yaguang [0491 0068 0342]: "Industrial Subsidy of Agriculture is the Strategic Measure to Stabilize Agriculture"]

[Text] At present, in areas of Sichuan where the rural commodity economy is growing quite quickly, there are growing signs of neglect of crop production; in particular, reduced inputs into grain production, extensive tillage, and planting "perfunctory fields" are common occurrences. The principal cause of this problem is the enlarged gap between the incomes of people engaged in industry and commerce and of agricultural laborers, diminishing the enthusiasm of the latter for planting crops. Stirring up the peasants' enthusiasm for planting and stabilizing the foundations of agriculture influences the ability of the entire national economy to grow in a balanced way. In the past few years, the state has taken a series of major steps to stabilize agriculture. However, the state's financial resources are limited, and so the fundamental solution is still to make adherence to the industrial subsidy of agriculture into a long-term strategic measure.

At present, the industrial subsidy of agriculture generally means turning over a portion of funds from the profits of township and town enterprises to the local responsible units for the subsidy of agriculture. Subsidies mainly take the following forms: paying on behalf of peasants all or part of their collective reserve funds and agriculture taxes - this is currently the main form of local industrial subsidy of agriculture; set up social welfare services; improve agricultural production conditions; encourage development of new technical development, such as giving subsidies to those testing new varieties, putting on demonstrations, and promoting improved varieties and methods; create and assist financially organizations which provide service before, during, and after production; encourage commodity production; promote the concentration of farmland in the hands of competent farmers, encouraging those with farming experience and the willingness to expand the scale of production to contract for farmland, also giving them subsidies; and increase investment in intellectual resources.

Carrying out the industrial subsidy of agriculture cannot be understood in the negative sense of levelling the incomes of those engaged in agriculture and

those laboring in industry and commerce. The goal of subsidizing agriculture is to "build up agriculture." How can the industrial subsidy of agriculture hit just the right spots? We believe that the following questions are worth exploring:

1. Change from the "blood transfusion model" to a "blood making model." At present, in the majority of areas, most or all of the industrial subsidy funds for agriculture are used to pay the reserve funds and agricultural tax for the peasants and to aid financially social welfare services. In this way, the masses' burden is certainly reduced, thus making a definite contribution to stirring up the peasants' enthusiasm for planting. But this does not have the capacity to directly develop resources, develop production, and revive the economy, thus belonging to the "blood transfusion model" of subsidy. There are currently some areas which take this money and invest most of it in agricultural capital construction, commodity production, new technology, and intellectual development; this method belongs to the "blood making" subsidy model. It strengthens the internal vitality of agriculture, promotes increased output and increased income, and replaces poverty with prosperity. Some places only use industrial subsidy funds for agriculture to "transfuse blood," not to "make blood," and thus there is little change in the poverty and backwardness.

2. Prevent egalitarianism. In allocating industrial subsidy funds for agriculture, another striking manifestation is absolute equality. For example, many places do not differentially allocate the agricultural subsidy funds for developing commodity production based on the amount of commodities supplied or the size of the contribution in developing commodity production, but rather give a share to any rural household raising crops and animals. This method of giving equal subsidies, regardless of what crop or animal is raised or whether commodities are supplied, is a total departure from the original meaning of encouraging commodity production. As another example, some places simplistically interpret industrial subsidy of agriculture to mean special subsidies for agricultural laborers, evenly dividing the agricultural subsidy funds according to the agricultural population or the number of mu of fields. These egalitarian methods, with their origins in the small-scale peasant economic mentality, should be corrected.

3. Put stress on the key points. Township and town enterprises cannot currently provide large agricultural subsidy funds. When money is scarce, it is even more important to use it appropriately and put emphasis on results. In terms of the whole province, the crucial step is to put most of the limited agricultural subsidy funds into crop production, especially grain production. This is the fundamental starting point and end result in implementing the industrial subsidy of agriculture. Of course, while supporting the growth of crop production and grain production, arrangements in the proper order should be made according to the needs and possibilities, distinguishing between what is urgent and what is not, highlighting the key points. We must not break up the power inherent in large amounts of funds.

The fundamental problem in letting industry subsidize agriculture is to develop township and town enterprises. At present, Sichuan's agricultural foundation is still relatively fragile, township and town enterprises got off

to a late start, their output value is small, and profits are low. Industrial subsidy of agriculture has only gotten going in the few areas that are fairly advanced economically; the majority of places are still fundamentally unable to include this in their agenda. In this situation, in addition to strengthening support of agriculture in the areas of finance and credit, we must actively and steadily develop township and town enterprises. Only in this way can we provide large amounts of funds to subsidize agriculture. Places which have already implemented industrial subsidy of agriculture should make sure to do so at an appropriate pace, resolving to benefit the enterprise's expansion of reproduction and the stirring up of worker enthusiasm; we must not "kill the chicken to get the egg" and "drain the pond to catch the fish."

Some people suggest that we set up a funding system for the industrial subsidy of agriculture. This suggestion is worth serious consideration. The present funds for the industrial subsidy of agriculture are mostly derived from township and town enterprises and some team(group)-run enterprises. The methods used to obtain funds and the amounts vary greatly. Due to the lack of a legal foundation, there are many difficulties in the process. It is truly necessary to set up a funding system for the industrial subsidy of agriculture; it is hoped that concerned parties will as soon as possible set their hands to studying and solving this problem.

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AGRICULTURE

FARM MACHINE PRICES DISCUSSED

Solution to Pricing Problem Urged

Beijing ZHONGGUO NONGJIHUA BAO in Chinese 17 Sep 86 p 1

[Article by Liu Jingxi [0491 2417 3556] of the Jiangsu Provincial Journalists Station: "Farm Machinery Pricing Problem Urgently Requires Solution: Appeal in Journalist's Letter"]

[Text] In the recent period of time, the Jiangsu Department of Machine Industry has organized numerous investigative studies and discussions concerning the price problems of farm machinery products. Comrades in farm machinery enterprises all feel that the following problems demonstrate that the farm machinery product pricing problem is in urgent need of solution.

1. Before the price was adjusted, preferential treatment was eliminated. In recent years the contradictions within farm machinery product pricing still have not been solved, but the state has eliminated subsidies for farm machinery prices and the tax exemption of metal auxiliary equipment, and in addition the raw and processed materials supplied in the plan dropped from the previous 70-80 percent of the need to 40-50 percent. Enterprises had no choice but to buy materials at high prices.

2. Prices for raw and processed materials rose abruptly, which the enterprises had a hard time absorbing. The enterprises reported that the actual price of pig iron and steel products is more than 30-50 percent higher than the original price; before April 1985, 20 high tin steel belts, material specially used in producing axle tiles, were 3,960 yuan per ton, whereas by June 1986 the price had been raised to 6,200 yuan per ton; however, the factory price for axle tiles is still the medium standard price from 1980. Due to the excessively rapid rise in cost of materials, farm machinery products are being put to death by the medium standard price, leaving farm machinery enterprises unable to cope; the price of many products is already seriously divorced from the value. For example, the material for the large axle of the 650 model hand-pushed rubber tire cart is No 45 round steel, gross weight 8.7 kg. The price for raw and processed materials reaches 10.40 yuan, but the national regulation price is 6.90 yuan.

3. The parity relationship between farm machinery and everyday machinery is not appropriate. For example, the Dongtai internal combustion engine parts factory is an orders factory for farm machinery tire valves; it currently also produces some tire valves for motorcycles, the price of which is 30 percent higher than for farm machinery. There are countless examples like this. The gap between farm machinery enterprises and everyday machine enterprises, in terms of economic results, worker wages, bonuses, and welfare, is getting larger and larger, affecting the production enthusiasm of farm machinery enterprises and the stability of the workforce.

4. Farm machinery enterprises are continually turning to other production. The province had 254 main farm machinery enterprises, of which 162, 64 percent, solely produce farm machinery; 77 enterprises, 30 percent, produce both everyday and farm machinery; 15 enterprises, 6 percent, have entirely changed production. From the above statistics we can see that the tendency of farm machinery enterprises to change over production will increase year by year. If it continues, it will endanger the strategic development of agricultural mechanization.

5. The contradiction between the year-round nature of production and the seasonal nature of products. The seasonal nature in the supply of farm machinery products is very strong. Threshers and harvesters, for example, can only be sold before the harvest season and water pumps and pipes are mostly sold in the second quarter, but factory production is year-round. If the state does not give preferential treatment, factories will put most of their energy into making other products; if things continue this way, agricultural production will certainly be affected.

This reporter believes that the problems reflected above are of general significance; in addition to enterprises strengthening their own management, raising product quality, and lowering costs, it is urgently necessary for the state to adjust policies.

Commentary Cites Necessity of Reform

Beijing ZHONGGUO NONGJIHUA BAO in Chinese 17 Sep 86 p 1

[Commentary by Mo Xiaomin [5459 1420 3046], editor responsible for this page: "Our Own Commentary: Reform of Farm Machinery Pricing Essential, Subsidizing Peasant Machine Purchases is a Realistic Need"]

[Text] What is the current condition of the farm machinery industry? This important bulwark of the farm-use industry affects whether or not the rural economy will be able to make profound reforms and continue to grow. Can it meet the demand for variety, quantity, quality, and economic results in farm machinery in areas of different economic levels? The reporter feels very worried after visiting the main departments of the farm machinery industry and the concerned enterprises.

Following progress in reform of the industrial system, competition between enterprises has become more intense. Farm machinery enterprises, which had

long carried out the policy of "low prices and tiny profits," faced important conflicts, some of which are intensifying daily. The price adjustment of raw and processed materials, the relative reduction in materials appropriated by the state, and striking increases in production costs have caused, in what had never been a rational relationship, a serious deviation of farm machinery price from value, forcing farm machinery enterprises to compete on unequal terms with other machine enterprises. The result has been: enterprises lack the ability to expand reproduction and self-transformation, worker welfare benefits are low, and production enthusiasm is not high; with the exception of a few small farm machinery production enterprises, they are all in a depressed state. Many farm machinery enterprises, in order to avoid losses, have already changed over to other areas of production and are starting to shrink away. Some farm machinery products urgently needed in the countryside cannot be developed on time, and certain up-to-date products are delayed and cannot be produced in large batches. Many factory chiefs of farm machinery enterprises are making fervent appeals: the situation in which enterprises take the place of the state in assisting agriculture must be changed.

It is my understanding that since 1961, the state decided to make 10 successive reductions in the price of farm machinery products, with the average range of price drops at more than 40 percent. According to preliminary corrected calculations, the total sum from the past 25 years of lowering prices to assist agriculture adds up to more than 50 billion yuan. The average profit rate left for the farm machinery industry is only 7.7 percent (not including the profit from non-farm machinery products). According to the most recent statistics from 23 key farm machinery enterprises, at present 108 types of farm machines and tools are being produced and the average profit rate is only 4 percent; 43.5 percent of these enterprises are losing money; 22.2 percent have profit rates beneath 2 percent. The cost for the five-shared plow produced by the Heilongjiang farm machinery plant is 2,640 yuan while the producer price is 1,900 yuan, a loss of 740 yuan on each plow. The Harbin farm machinery plant loses 920 yuan on each planter it produces. The more production there is, the higher the loss; furthermore, many farm machinery products have a strong seasonal character, so that the problem of funds tied up in overstocking is quite common, making the burden on enterprises even heavier.

The situation in which the price of farm machinery products is divorced from value and in which the same product has different prices, depending on whether it is used in industry or agriculture, cannot continue; it is vital that the problem be included within the scope of price reforms. This conclusion has been reached many times in investigations organized by the Machine-Building Industry Ministry, concerned state departments, and economic specialists. But because the level of the agricultural economy is still low in most areas and thus the ability to bear price rises is weak within a certain period of time, the prices of some farm machinery cannot simply be deregulated, as has been done with certain other products. What is to be done? Responsible comrades in the Agricultural Machinery Bureau of the Machine-Building Industry Ministry and the Agricultural Mechanization Bureau of the Agriculture, Animal Husbandry, and Fishery Ministry all believe that, based on the practices of many countries, in order to support the growth of agricultural production, it is necessary to give to machine-buying peasants subsidies of a policy nature.

That is, adjust the producer price of farm machinery products in accordance with the average profit rate of the machine-building industry, but do not make fundamental changes in the price charged peasants; the difference would be made up by the state in direct subsidies to peasants buying machinery.

Specialists who have investigated and studied the problem believe that the job of reforming the prices of farm machinery products has a strong policy nature and affects many different areas. It affects the survival of the farm machinery industry, the reserve strength for the continued growth of the rural economy, and whether or not agricultural labor productivity can be raised; it has already reached the point where change is imperative; we hope that concerned departments of the state will present feasible reform proposals as soon as possible.

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PROSPECTS FOR EXPANDING RAPE PRODUCTION DISCUSSED

Wuhan ZHONGGUO YOULIAO [OIL CROPS OF CHINA] in Chinese No 2, 20 Jun 86 pp 1-3

[Article by Zhang Xunli [1728 0534 0448], Oil Crop Institute of the Chinese Academy of Agricultural Sciences: "An Attempt to State the Prospects for Expanding Rape Production in China"]

[Excerpts] II. Estimates on the Future Demand of Rapeseed in China

The amount of the future need of rapeseed in China will be determined by the oil levels used by the people, the oil used in foods and the oil used in industry as well as in foreign trade exports and is related to the speed of the development of other oil crops.

1. Levels of Oil for People. A recommendation for best foods put forth by the Soviet Academy of Medical Sciences stipulated that calories taken from the cookbooks of the residents be made up of 14 percent protein, 30 percent fat and 56 percent carbohydrates and that in 1990 the average daily heat energy per person of the residents reach 3000 to 3200 Calories. Of this, the standard consumption of vegetable oils would be 13.2 kilograms. The result of a national nutrition investigation in Japan from 1960 to 1980 [showed] that the average heat energy taken in was 2000 to 2100 Calories. In China, a 1959 national nutrition investigation of about 1.5 million person-times [showed] that the average heat energy need was about 2400 Calories. In an investigation in 1982, the average daily intake of heat energy for city residents in Beijing Municipality was 2400 Calories and that in rural areas was about 2500 Calories. It was 2290 Calories for city-area residents of Lanzhou City and it was 2490 Calories at a point inspection in a rural village in Huangpi County of Hubei Province. If the average daily intake of heat energy is taken at 2400 Calories and fats make up 30 percent, then the per capita daily fat requirement is 75.8 grams (1 gram of fat produces 9.5 Calories) and the per capita annual requirement [of fat] is 27.6 kilograms. If fats are calculated as making up 20 percent, the per capita daily requirement is 50 grams and the annual requirement is 18.2 kilograms. If vegetable oils and fats are 50 percent [of this], then the [annual] requirements are 13.8 kilograms [at 30 percent] and 9.1 kilograms [at 20 percent]. According to the expansion of oil crop production and the peoples' purchasing power within a set time in the future in China, it is envisioned that the average edible oil consumption for city populations in 1990 will increase 40 percent over the

1980 base of 4.25 kilograms to 5.9 kilograms (equivalent to 1980 world production levels for oils) and that the average for rural populations will increase 60 percent from 1.55 kilograms to 2.5 kilograms (an increase of 0.5 kilograms over the highest level since the founding of the country). Altogether, the total amount of edible vegetable oil needed is 68.70 million dan, of which rapeseed oil makes up 40 percent, or 27.5 million dan, that is, 83.00 million dan of rapeseeds. In 2000, the levels of edible oils for city and rural populations will, based on [those for] 1990, again be increased 30 percent and 50 percent, respectively, reaching an average of 7.7 kilograms for city populations and 3.75 kilograms for rural populations. Then, the total amount of vegetable oils needed will be 105.80 million dan, of which the proportion of rapeseed oil will be increased to 45 percent, or 47.60 million dan, that is, 144.30 million dan of rapeseeds.

2. Oils Used in Foods. Along with expansion of the food industry as well as improving the quality of rape and developing multipurpose uses for it, the scope of usage for rapeseed oil will increase year after year. It is estimated that by 1990 oils used in foods will average 0.5 kilograms of vegetable oil per person, of which the amount of rapeseed oil used will make up 50 percent, or 5.60 million dan. In 2000, this will double to 11.20 million dan. This amounts to 17.00 million dan [in 1990] and 33.90 million dan [in 2000] of rapeseeds, respectively.

3. Oils Used in Industry. It is estimated that by 1990 it will be 8.00 million dan and for 2000 it will be 16.00 million dan. If the amount of rapeseeds used makes up 80 percent, 19.40 million dan and 38.80 million dan, respectively, of rapeseeds will be made into oil.

4. Foreign Trade Exports. According to the ability of the international markets to accommodate [oils] and the feasibility of expanding superior-quality rape production, it is estimated that, by 1990, 750,000 dan of rapeseed oil will be exported, and, in 2000, it will increase to 5 million dan, which amounts to 2.30 million dan and 15.00 million dan of rapeseeds, respectively.

5. Amount of Seeds Used. Calculating on the basis of 0.5 kilograms per mu, about 1 million dan of rapeseeds will be needed.

As for the five items above, altogether 122.70 million dan of rapeseeds will be needed by 1990 and 233.00 million dan will be needed in 2000. This is an increase of 43.1 percent and is 1.73 times that of 1983.

III. Present Direction and Measures in Developing Rape in China

Raising the standard of living for the peoples of China brings demands of even higher requirements for oils quality and suitable international markets. In line with this, quickly expanding the production of superior-quality rapeseed oil is an urgent duty facing the scientific research and production of rape. In recent years, through joint efforts made by scientists, new varieties (strains) of low brassidic acid or "doubly low" rape suitable for production in different regions have been successfully introduced for experimental planting and have been bred. The basis already exists for making great

efforts to expand the production of superior-quality commodity rape and it is suggested that:

1. Direction and policies for rape production be made stable. To achieve superior-quality and high prices in real earnest will enable producers to genuinely obtain material benefits.

2. Organization and leadership be strengthened. In order to adapt to the needs of the production of high quality commodity rape, each of the seed-supplying, production, purchasing, processing, and sales departments must coordinate closely so that, should any department be hindered, they all can affect the obtaining of superior-quality rape. According to the statistics, in 1984, 450,000 mu of low brassidic acid rape were planted in 24 provinces (and municipalities) throughout the country, but only Huaiyin Prefecture in Jiangsu Province had a small amount of exports for the first time. On the average, the other [areas] made general handling of rapeseeds. In 1985, about 700,000 mu were planted and batches of superior-quality rape had not taken shape. Because of this, leadership must be strengthened and appropriate formats adopted. The relationships of each department must be coordinated and work responsibilities divided to provide good pre-production, mid-production and post-production services.

3. Distributions be reasonable. Production of superior-quality commodity rape must first be properly centralized, the technical forces that are selected must be strong, and the natural environmental conditions must be superior. Commodity bases are to be built in areas where the ratio of commodities is high and then gradually expanded.

4. Breeding systems for sound and improved varieties be established. Rape is a normal allogamous crop and is easily cross-pollinated with the Cruciferae family of plants. This is especially so in dryland planting and it is even harder to prevent or stop mechanical mixing. Places with low costs and with fairly good natural conditions ought to be selected for carrying out the breeding of improved varieties, and a unified seed supply ought to be carried out to guarantee that the amount of brassidic acid contained in the seeds used in the croplands be controlled at 2 percent and under.

5. Systems of popularizing agricultural technology be perfected and new technologies be developed. New variety test demonstrations and results will popularize their utilization and technological training and will continually raise production levels to suit the need for superior-quality commodity rapeseed production.

6. Quick measuring and testing technologies for low brassidic acids be studied and popularized. Using purchasing stations as a foundation, measuring and testing centers are to be built to guarantee the quality of purchases.

7. Food processing industries and their high added-value products be expanded and multiple processing and multipurpose uses be developed. On the basis of fully tapping the present oils processing potential, processing systems for finish processing and comprehensive utilization are to be centralized and established. Along with the rise in the people's standard of living, changes

are occurring in the trading structures of the world's agricultural products. What is worth noting is that the proportion of trade made up of high value agricultural products (mainly processed goods) is continually rising. This is especially so for manufactured foods which are musts in Western countries and tourism. Because of this, we cannot only pay attention to rape's role on edible oils, but we ought to speed up study and expand manufactured foods as well as high added-value processed goods to open up new prospects in exporting and gain even more foreign exchange for the country.

To sum up, due to the special position of rape itself and the needs of the national economic construction, that China's rape production will continue to be carried forward has been decided, and, moreover, that within the near future, forces will be concentrated on expanding the production of high-quality rape. While we were studying the expansion of grain and cash crops, we put out a plan for China's rape production (see table), and, according to the results from the rape-growing districts, we believe that of the eight Category 1 areas, those with the greatest production potentials are the autumn-sown rape areas in the Chang Jiang river valley, the autumn-sown rape areas between the Yellow and Huai Rivers, and the spring-sown rape areas on the Qing-Zang Plateau. To realize the tentative plan above, powerful measures must be adopted and superior-quality commodity rape production expanded as quickly as possible.

TABLE

TENTATIVE PLAN FOR EXPANDING RAPE PRODUCTION IN CHINA FOR 1990 AND 2000

YEAR	Growing Area (million mu)	Unit Yield (jin/mu)	TOTAL in million mu	P R O D U C T I O N	
				Avg. Annual Yield Incr. (million dan)	Avg. Annual Yield Rate (percent)
1981	57.01	143.0	47.563		
1990	70.00	178.4	124.900	4.84	4.8
2000	100.00	228.0	228.000	10.80	6.2

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ADVANTAGES TO DEVELOPING RAPE PRODUCTION CITED

Changsha HUNAN NONGYE [HUNAN AGRICULTURE] in Chinese No 8, 1 Aug 86 p 9

[Article by Huang Song [7806 2646], Provincial Crop Institute: "The Advantages of Developing Rape Production"]

[Text] Hunan is one of the concentrated rape production areas in the country. In an average year, rapeseed oil makes up about 50 percent of vegetable oils. Except for paddy rice, rape in Hunan has already become the largest crop. As early as 1982, the [rape]-growing area in the province was 5,926,100 mu, the total output was 8.171 million dan, and the [rape]-growing area leapt to third place among the provinces (and municipalities) of the whole country.

Presently, there are 40 million mu of wetlands and, in an average year, 30 million mu of double-harvest rice is planted. If on the basis of the double-harvest rice rape made up more than 20 percent of the double-cropped rice paddies, 6 million mu [of rape] could then be developed in the double-cropped rice paddies throughout the province. There is presently more than 2 million mu of cotton fields in the province. Utilizing one-third of the area to multi-crop rape, more than 800,000 mu of rape can be attained in the cotton fields. In the province there is also more than 7 million mu of single-season rice in the province; by popularizing the dual rice-rape ripening system, 2 million mu [of rape] can be planting. Adding the 3 to 4 million mu of sweet potato dry lands, 8 to 10 million mu of rape-growing area can be developed in these ways throughout the province provided great efforts are made.

The oil content of rapeseeds can reach about 40 percent oil and from 100 jin of rapeseeds about 30 jin of oil can be extracted. If regions lacking oil would develop rape production, more than enough edible oil can then be made in a winter and spring and resolve in the quickest way the problem of edible oils.

Developing rape production can increase the income of agricultural households and can promote the development of processing industries. At 150 jin of rapeseed per mu yield, 1.35 yuan per jin for rapeseed oil and 0.16 yuan per jin for rapeseed cake, income obtained from planting one mu of rape is equivalent to the value of 600 or 700 jin of rice. If the flowering season is used to raise bees, and the husks and stalks are crushed and used as feed, income can yet be increased more than 10 yuan. If each person would plant 0.3

mu of rape, income can then be increased more than 20 yuan and income for each day of labor can be increased 2 to 3 yuan and as high as 5 to 7 yuan. The agricultural population of Li County is more than 800,000 and 430,000 mu of rape was planted in 1982. This comprised more than 40 percent of the wetlands area. The total yield was 800,000 dan and the per mu yield was 186 jin. Income increased 44 yuan per capita in the county that year.

Even though rape is an oil crop, it is also a fertilizer source. The leaves and flowers of rape as well as the stalks and remaining roots are very good organic fertilizers; especially so is the high fertilizer efficiency of the dried [rape] cake after the oil has been extracted. The nitrogen, phosphorus, and potassium in 100 jin of [rape] cake has been determined to be equivalent to 23 jin of ammonium sulfate, 15 jin of calcium superphosphate and 3 jin of potassium sulfate, or is equivalent to ten-odd dan of human excrement. If a county would plant 300,000 mu of rape, the total yield would be 30 million jin. 20 million jin of rape cake alone could be produced and would be equivalent to building a 10,000-ton annual capacity chemical fertilizer plant. Developing rape production can add nectar sources and can also improve the soil and promote increased grain and cotton yields. Rape blossoms early and its flowering period is long; it is a good early-spring nectar source. More than 10,000 mu of rape was planted in Gansha Township of Changsha County and the annual honey yield is more than 70,000 jin. The average per mu yield of honey is more than 7 jin. The root system of rape is developed and the taproot goes deep into the soil. Adding large amounts of fallen leaves and flowers and the remaining roots can make the soil more porous, the plowing easier and the fertility higher. This is especially so planting rape in rice paddies. The ground is tilled, the water is drained and [the ground] is dry in winter. The water table is lowered, promoting the breaking up of the soil and improving soil aeration. The root system of rape develops and can generate a strong acid breaking up the phosphorus which could not be broken up in the soil to be absorbed by the crop. The masses have reported rotating rape and paddy rice and that the [rice] grains are plump and robust. According to investigations at Dantang Village of Huangtuling Township in You County, the rate of empty husks for paddy rice planted in rape fields was only 9 to 13 percent whereas the rate of empty husks in green manure fields is 15 percent or more. According to investigations at Jinxing Village of Jinlan Township in Hengyang County, rape was planted in poor clay [reading 5231 for 5183] fields and the alkali-released nitrogen in the soil increased 10mpp [as published]. Quick-acting phosphorus and quick-acting potassium increased 5 to 6 ppm and 2 to 3 ppm, respectively, and the [soil] pH value dropped from 8 to 7.

Developing rape production can increase feed and promote the development of the animal husbandry industry. Rape cake and stem pods and stalks contain an abundance of coarse proteins and coarse fats and, after they are ground, they are good feed for pigs and fish and can be used to substitute for rice bran and wheat bran.

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AGRICULTURE

SOFTWARE PACKAGE FOR INVESTIGATING CROP DISEASES

Wuhan ZHONGGUO YOULIAO [OIL CROPS OF CHINA] in Chinese No 3, 20 Sep 86 pp 74-78

[Article by Shang Jianguo [0794 1696 0948], Institute of Edible Oil Crops, Chinese Academy of Agricultural Sciences]

[Abstract] The crop disease software package reported in this article consists of nine programs of four categories: 1) one-disease investigation program (SJG-C-1) and two-diseases synchronous-investigation program (SJG-C-2), capable of simultaneously processing 250 collected data items with nine levels, sequential addition of numbers, automatic counting, buzzing to announce the time for the next batch or for stopping, data revision, counting of infectivity and indicators. 2) Data collation program (SJG-B-1) for short-line printout, and long-line printout program (SJE-B-2): the programs can produce printouts of English language chart headings, and calculation of infectivity and indicator with either short or long lines. 3) Magnetic tape data storage data on magnetic tape or inputting into other computers. 4) PC-1500 and Changcheng 0520A computer communication program (LLL3), Chinese-character format printout program (SJG-B-3) and multi-item Chinese-character printout program (SJG-B-4) are capable of on-line operation of PC-1500 computer and Changcheng 0520A computer, and printout of Chinese-character copy or multi-item copy.

The software package has been applied to the investigation of rape and soybean diseases with good results. Undoubtedly, the package can be applied to other crop diseases and in sampling. In the author's opinion, the software package is transferable to other computers. Six tables show compilations of agricultural scientific data, virosis of rape with English headings, soybean virosis with Chinese headings, and execution steps. The author is grateful to Zhou Biwen [0719 1801 2429] and Chen Daoyan [7115 6670 3508] for assistances.

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AGRICULTURE

EXPERIMENTAL REPORT ON EPOXY ETHANE EXTERMINATION OF ANTHRAX SPORES IN ANIMAL HIDES

Beijing ZHONGGUO SHOUYI ZAZHI [CHINESE JOURNAL OF VETERINARY MEDICINE] in Chinese No 8, 22 Aug 86 pp 45-47

[Article by Zhu Yao [2612 2565]]

[Abstract] By the late 1960s, epoxy ethane began to be used in China to exterminate anthrax spores in animal hides. All hides delivered to a factory are fumigated with epoxy ethane before being graded and inspected for quality, thus avoiding environmental pollution and transmission of anthrax spores. The fumigation also satisfies foreign veterinary quarantine requirements for hides.

The article reports on an early 1980's-designed, negative pressure, straight-through type of fixed container, a rolled iron-plate cylinder with a volume of 40 m³, capable of holding 8,000 goat hides. A suction pump, an epoxy-ethane applicator, a thermometer, and a tester are fitted with the container. As shown in two tables in the article, the fumigatory effectiveness is 100 percent; the effectiveness is closely related to how much epoxy ethane is applied, its atomization extent, duration of action, temperature in the container, negative pressure, and container hermeticity. If any of the above-mentioned factors is not up to the required rated indicators for fumigation, its effectiveness will be reduced.

The author is grateful to Peng Shicai [1756 0013 2088], Zhu Jian [2612 1696] and Wang Dingde [3769 1353 1795] for their assistance.

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AGRICULTURE

PROGRESS IN USING FUNGUS TO SUPPRESS INSECT PESTS AND TO TREAT THEIR DISEASES

Beijing KUNCHONG ZHIZHI [ENTOMOLOGICAL KNOWLEDGE] in Chinese No 4, Jul 86 pp 188-190

[Article by Xu Qingfeng [1776 1987 6265], Institute of Plant Protection, Jilin Provincial Academy of Agricultural Sciences]

[Abstract] For a safe ecological environment, China stopped the production and use of insecticides such as DDT and 666. Instead, biological control of harmful insects is the dominant approach. In the article, as early as the 1950's in China tests began using *Beauveria* (B.) *bassiana* (Bal.) to control insect pests in agriculture and forestry, mainly the pine caterpillar, *Pyralididae* and *Homoptera* with the release of *B. bassiana*. After 4 years' application in North China, the insect population was reduced from 62 to 85 to 1.2 to 3 insects per 100 plants, with 80 percent extermination of wintering larvae.

The effectiveness is 70 to 80 percent in Zhejiang, Jiangxi, and Hunan for pests in paddy rice field, in tea and apple trees, and in sugarbeet, sweet potato and soybean plants. The insecticidal rate is 80 to 90 percent for *Trialeurodes vaporariorum* (Westwood) when *Aschersonia* sp. is applied, as proposed by the Beijing Agricultural Science Academy. Recently, a concentrated spore powder has been developed in China, with 120 to 250 billion spores per gram.

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REPORT ON ANHUI AQUATIC PRODUCTION

Hefei ANHUI RIBAO in Chinese 14 Aug 86 p 1

[Article by Wu Zhongyi [0702 0112 5030] and Ren Xudong [0117 2485 2639]: "Aquatic Production in Anhui Developed Quickly in First Half of Year -- 'Crab-Raising Fever', 'Rice-Paddy Fish-Raising Fever', and 'Fish Pond Digging Fever' Appeared Everywhere"]

[Text] In the first half of this year, the aquatic products industry in Anhui appeared to be developing quickly and each of the major economic indicators generally increased by big margins over those for the same period last year. By the end of June, the total output of aquatic products throughout the province was 85,412 tons, an increase of 21.9 percent over that for the same period last year. Of this, the breeding output was 60,042 tons, an increase of 37.7 percent, and the output of adult fish at state-run fisheries was 5,674 tons, an increase of 148.8 percent. Fry production was 9.44 billion, an increase of 3.4 percent, and fingerling production was 2.94 billion, an increase of 26.9 percent.

During the development of the aquatic products industry throughout the province, "three fevers" also appeared. The first was a crab-raising fever. In the first half of the year, 57,366 kilograms of young crabs and crabs were bred throughout the province, an increase of more than 90 percent over that of last year, and the water surface area for breeding reached 1.98 million mu, of which 2804 mu were crab-raising ponds, an increase of more than 100 times that of last year. Presently, according to investigations in various places, river crabs are generally growing well. The second was a rice-paddy fish-raising fever. In the first half of the year, 515,200 mu of rice paddies for raising fish was reached, surpassing the annual plan. Already, 62 counties and cities have developed rice paddies for raising fish. The third is a fish pond building fever. In the first half of the year, there has altogether been 187,000 mu of newly-dug and transformed Category Three rural ponds, completing 85 percent of the annual plan.

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PROBLEMS IN FUJIAN CANE SUGAR PRODUCTION, COUNTERMEASURES

Fuzhou FUJIAN LUNTAN [FUJIAN FORUM] in Chinese No 8, 5 Aug 86 pp 47-49

[Article by Lin Huangdu [2651 0420 2629], Fujian Academy of Social Sciences: "Several Problems in Fujian's Cane Sugar Production Demanding Prompt Solution"; in the Rural Economic Studies section]

[Text] After going through a year of breaking even and two years of downturn, cane sugar production in Fujian in 1984 has again begun to rise by large margins. In the 1984-1985 pressing season, sugar production in the province reached 480,000 tons. In the 1985-1986 pressing season, new historical levels of 520,000 tons were also established. However, according to the most recent investigations, the area for planting sugar cane this year dropped 60 to 80 thousand mu from that of 1985, and, if positive measures are not adopted now, cane sugar production will be facing the danger of renewed declines. Because of this, to understand fully the new problems and the new contradictions that are currently emerging in cane sugar production and to resolve them without delay is the most important problem.

I. In View of the New Contradictions Emerging After the Loosening of Prices for Most Agricultural By-Products, Appropriate Countermeasures Must Be Taken.

In recent years, along with the thorough expansion of the reforms in the rural economic system, the prices for the large majority of agricultural by-products has been gradually loosened. Although sugar cane production has changed from a command plan to a guiding plan, sugar is a product under the command plan and prices have been strictly controlled by the state. As a result, contradictions have arisen between the majority of agricultural by-products whose prices have already been loosened and sugarcane and sugar which have not yet be loosened. With the further expansion of the reforms, these contradictions will be more and more pronounced.

From the view of sugarcane production, these contradictions are mainly reflected in three areas:

1. Sugarcane prices have risen a small margin and the net income from planting sugarcane is lower than that of other agricultural by-products. According to investigations by the People's government of Longhai County, the agricultural market price for early rice in 1985 was 25.8 yuan per dan, an

increase of 123.4 percent over the original state monopoly purchase price of 11.55 yuan; the agricultural market price for peanuts was 70 yuan per dan, and increase of 94.4 percent over the original state monopoly purchase price of 36 yuan; the market price per dan for litchis was 105 yuan, an increase of 4.12 times over the original imposed price of 20.5 yuan (middle grade); the market price per dan for Lu mandarin oranges was 85 yuan, an increase of 2.54 times over the original imposed price (for Grade 2) of 24 yuan. But, the current comprehensive price for sugarcane is only 76 yuan (which includes a 2 yuan subsidy from the Longhai County Financial Office), and, compared with the original list price for cane sugar, it has only increased 30 percent. It is the same from the view of net income. According to investigations and measurements by the Zhangzhou Refinery in February 1986 on ten points, the net income per mu from interplanting sugarcane with legumes was 177.82 yuan, which is 3.52 yuan lower than planting double-cropped rice (sold at negotiated prices), 0.82 yuan lower than for continuously cropping peanuts with sweet potatoes, 195.1 yuan lower than planting fruits and melons (reading 5559 for 5587), 66.18 yuan lower than for continuously cropping watermelons with sweet potatoes, 458.88 yuan lower than planting bananas, 207.18 yuan lower than planting lotus seeds, and 900 yuan lower than for raising fish. Consequently, the enthusiasm for planting sugarcane has, for several sugarcane farmers, especially those in city suburbs and areas where commodities and economics are rather developed, dropped, and the stability and expansion of sugarcane production has been affected.

2. The increase in labor and services wages has increased cutting and transportation costs. Sugarcane is a large tonnage crop and time must be concentrated to cut and transport. Because of this, during harvesting, helpers or hired laborers must be engaged to cut and transport. But, along with the increase in labor and services wages, cutting and transportation costs have greatly increased. According to investigations, to cut and transport 1 ton of sugarcane, altogether about 10 yuan needs to be paid for wages as well as for food, cigarettes, alcohol and other costs. This is a very big burden to the sugarcane farmer.

3. Market grain prices have gone up and have virtually added weightier burdens on the sugarcane farmer. Due to the canceling of the list prices for sugarcane and grains, the grain ration for the sugarcane farmer is seriously inadequate and he needs to buy large amounts of grain at negotiated prices. In several sugarcane areas, the price of rice in the agricultural markets has gone up, at one time a jin of Standard Number 2 Large Rice had reached 0.45 yuan or more (in some places it was as high as 0.5 to 0.6 yuan) and a dan of rice was generally about 25 yuan. Sugarcane farmers generally feel that the canceling of the list prices for sugarcane and grain has made things worse for them and does not pay.

From the standpoint of refined sugar, these contradictions are also mainly manifest in three areas:

1. The enthusiasm of the sugarcane farmers has dropped and has caused the raw material for the sugar refining industry to be in even shorter supply. According to the most recent investigations, the area of sugarcane planted throughout the province this year is 60 to 80 thousand mu lower than last year

and will reduce the amount for pressing by 300 to 400 thousand tons. The sugar yield will be 35 to 45 thousand tons less. This will cause the output value of the sugar refining industry to be reduced more than 40 or 50 million yuan. Taxes and profits will be reduced about 1.4 to 1.8 million yuan and will cause reductions of income for the financial departments at each level. The utilization rates of the equipment in the refineries will drop from the present 95 percent to 85 percent.

2. The costs to refine sugar have increased and refinery earnings have dropped. According to the price in the 1985-1986 pressing season, a ton of sugarcane was 76 to 80 yuan (including the current augmented price everywhere). Then, to add the prices of fuel and supplemental materials necessary to refine sugar, it increases by a big margin. This then causes the production costs of sugar to increase greatly. But, sugar prices have not changed in more than 20 years. Because of this, even though there has been a large expansion in enterprise production, enterprise profits have decreased greatly and the remaining capital of the enterprise has likewise dropped considerably under the influence of the inequitable sugar prices. This does not only influence the financial income of the country and the expansion of the welfare services for the enterprise's staff and workers, it also causes the enterprise to lack the ability to transform and expand by itself.

3. Income for the financial offices has decreased and their burdens are weightier. In order to foster sugarcane production, governments at the provincial, city (or prefectural) and county levels have to increase each of the subsidies. As a result, the burden of the financial offices becomes heavier and heavier. Taking the 1985-1986 pressing season as an example, the subsidy for the price variance between the market quotations and negotiated prices for grain and fertilizer given by the provincial financial office per ton sugarcane was 20.5 yuan. The provincial commercial subsidy was 2.25 yuan and the subsidies by the financial offices of the city and county were 2 to 7 yuan. The total was 24.75 to 29.75 yuan. However, due to the increased capital costs in the sugar refinery industry, the taxes and profits turned over decreased greatly. If 1980 is taken as 100 percent, the taxes and profits per unit of white granulated sugar dropped to 66.88 percent in 1984 and dropped to 66.36 percent in 1985.

Stating the above clearly: Sugar and sugarcane prices are not reformed, and the sugarcane farmers are not satisfied, sugar refineries are not satisfied, and financial departments are also not satisfied. Because of this, sugarcane production must be further expanded, and, speaking from the root [of this problem], reforms must be carried out on sugar and cane sugar prices and like other agricultural by-products be gradually loosened. But, currently, while reform conditions are not yet completely existent, transitional methods ought to be vigorously adopted to arouse the producers' enthusiasm and promote the continued expansion of cane sugar production.

1. Reinstating to some extent list prices for sugarcane and grain ensures that the economic benefits to the sugarcane farmer will not suffer loss. Sugarcane farmers plant sugarcane first to have food to eat and second to have money to spend. Since 1983, Fujian's "comprehensive price" for sugarcane purchasing has, from trial implementation to common practice, paid farmers

cash converted according to the price variance between the market quotations and the negotiated prices to encourage grain and fertilizer sales. Formalities have been simplified, [prices] honored and [payments made] without delay, and the expansion of sugarcane production was promoted. However, due to ignoring the grain ration supply problems of the sugarcane farmers after grain sales encouragements were canceled, supply shortages occurred on occasion at grain markets in sugarcane[-growing] areas. Later, the provincial government decided to sell grain at protected prices to sugarcane farmers. They bought a ton of sugarcane and sold a dan of raw grain for 20 yuan. This then stabilized the grain market and reassured the farmers. "A fall into the pit, a gain in your wit." From this, most of the sugarcane farmers were able to understand even better the importance of list prices for sugarcane and grain and one after another they asked that the policy of list prices for sugarcane and grain be reinstated to some extent. What the sugarcane farmers asked for was reasonable and ought to be resolved. Considering that the gap in grains is rather large in Fujian and that the grain sources are not very adequate, the sugarcane farmers also generally plant grain fields for seven or eight months of grain ration. Because of this, provided that the sugar transferred to the state every year is exchanged for returning grain (after the tasks stipulated by the state are completed, the base is deducted, and sugar tonnages are exchanged for grain tonnages), if the total amount supplies the sugarcane farmer, then it is alright. If 200,000 tons of sugar can be transferred to the state every year and the returning exchange trade grain is converted to raw grain, each ton of sugarcane can at, par price or arranged price, supply 125 to 140 jin of raw grain and the sugarcane farmer's grain ration can then be basically satisfied. Reinstating to some extent list prices for sugarcane and grain can only then maintain the dominance of sugarcane production in its competition with other cash crops and thus steadily expand. As mentioned previously, after most of the prices on agricultural by-products were loosened, incomes from planting sugarcane were not as those in the past. There are two main reasons why the sugarcane farmer is willing to plant it: The first is that sugarcane is better than other cash crops, possessing outstanding characteristics such as stable production, stable sales (market capacity is large), and stable value. And, the risk is small. The second is that grain is a guarantee. Although planting sugarcane reduces income a bit compared to planting other cash crops, and there are guarantees to eating grain in comparing them, planting sugarcane is still safer. Just as most sugarcane farmers say, "By planting grain one can control his stomach, by planting sugarcane one has money and a full stomach." We believe that, even though sugarcane and sugar prices will also be loosened, if arranged prices for sugarcane and grain are not made, we must consider supplying ample grain rations in sugarcane[-growing] areas. Only then can sugarcane production gradually expand. Because of this, sugarcane and grain still cannot completely take the hook off.

2. Reasonably adjusting sugar prices strengthens the vitality of the sugar refining industry. In the past several years, the raw materials, fuels and supplementary materials needed by the sugar refining industry have increased in price many times and personnel wages and transportation costs have also increased a lot. Enterprise capital costs have continually risen. Taking the Xianyou Sugar Refinery as an example, from 1979 to 1985, costs per ton sugar rose 151.85 yuan due to the increased price of sugarcane. The increased price

for fuels caused the cost per ton sugar to rise 7.29 yuan, and the increased price for lime and sulfur (reading 4337 for 3874) and other supplementary materials caused the cost per ton sugar to rise 5.30 yuan. Enterprise transfer of capital, non-staple foods and other subsidies of all kinds increased and caused the cost per ton sugar to rise 11.80 yuan. Pollution discharge costs levied by the state caused the cost per ton sugar to rise 9.95 yuan. Then adding on the increase of transportation costs and packaging costs, altogether the cost per ton sugar has been increased 239.64 yuan. Because of this, the cost per unit of white granulated sugar has risen from 429.30 yuan in the 1978-1979 pressing season to 688.94 yuan in the 1985-1986 pressing season. If each sugarcane subsidy by the provincial, city, and county financial departments were switched over to the factory capital costs, then the cost per ton sugar would rise to 912.41 yuan. The capital cost of sugar has risen by big margins, but the ex-factory price of sugar has not changed in more than twenty years. The ex-factory price for Grade 1 white granulated sugar has been maintained all along at a level of 1050 yuan per ton, seriously deviating from its value. This has led to a series of unfavorable results: The first has been that profits for the sugar refining industry have declined year after year. A lot of small sugar mills have had almost no profits and some are even on the verge of closing. The second has been that the incomes of the financial offices at every level have declined seriously. The taxes and profits turned over to the higher authorities by the sugar refining industry in 1981 (deducting the financial subsidies used in sugarcane production) reached 130 million yuan, but only 27 million yuan was left over in 1985. The third has been that the vitality of the enterprises have been stifled, causing new enterprises to be lacking in supplies and in their ability to pay interest and causing old enterprises to be powerless to implement technological transformations and obtain new equipment. Because of this, adjustments in sugar prices is imperative. According to preliminary calculations, if each of the subsidies for sugarcane production were switched to the capital costs for sugar and the original tax and profits levels for enterprises could be preserved, the ex-factory price for white granulated sugar must rise about 33 percent, that is, each ton would rise from 1050 yuan to 1350 yuan. Wholesale and retail prices for sugar would also follow along and make corresponding adjustments. The adjustments in sugar prices will certainly cause a series of chain reactions and will affect the prices of more than 2400 types of products using sugar as a raw material or as a supplementary material. However, for the long-term expansion of sugarcane production, the advantages to raising sugar prices will outweigh the disadvantages.

II. In View of the New Contradictions Emerging After Implementing the Production Responsibility System, Appropriate Countermeasures Must Be Taken

Most of the sugar refining industries in Fujian are large modernized producers. The sugar refining industries themselves are rather timely, seasonal and continuative, and, because of this, require that production be carried out strictly according to plan. The Ministry of Light Industry has stipulated that the sugar refining industries in Fujian ought to be in operation 120 days and that the number of days of actual pressing be 110. According to this requirement, in sugarcane planting, early, middle and late ripening varieties must be rationally planned out, appropriately centralized

and continuously cropped. During the pressing period, cutting and transportation must be timely and reasonably organized according to the time that the sugarcane matures to preserve sugarcane freshness, raise the sugar yield and increase economic benefits. According to chemical analysis at the Nan'an Sugar Refinery, the sugar content of sugarcane pressed after being deposited three days dropped 0.3 percent. Pressed after being deposited five days, the sugar content dropped 0.5 to 0.6 percent. The sugar content of that which was deposited for six days and pressed dropped 10 percent [as published]. But, if the sugar content of sugarcane drops 1 percent, the sugar yield per 100,000 tons of sugarcane is lowered 127 tons, reducing income by 130,000 yuan. Yet, due to the responsibility fields being split among households and contracted, most of the sugarcane is planted in a decentralized manner. If we look from [the viewpoint of] the Xianyou Sugar Refinery, the units with which they have settled accounts supplying sugarcane for pressing in the past was more than 2400. Now it is with more than 90,000 units (agricultural households). Then adding that sugarcane production has been transferred from a command plan to a guiding plan, it is then even more difficult, according to the requirements of the sugar refining industry, to appropriately continuously crop and centralize sugarcane planting, and, also, to carry out planting at reasonable proportions of early, middle and late maturing varieties and reasonably organize cutting and transportation at the times the sugarcane matures. As a result, even though the work load for purchasing sugarcane at sugar refineries has increased greatly, the loss of sugarcane drying in transit has also increased, lowering sugar content, reducing the rate of sugar yields, and lowering the economic benefits of the sugar refineries.

Basic countermeasures resolving the contradictions above are in further perfecting a joint production contract responsibility system, enabling sugarcane production management to gradually change from one which is decentralized and piecemeal into one which is moderately centralized and moderately scaled. To do this, the following countermeasures must be adopted in the future:

1. Greatly expand town and township industries and service industries in sugarcane[-growing] areas and vigorously organize labor, services and transportation (to outside areas and abroad) and reduce the pressure of manpower on the land. This will enable them to separate gradually from small plots of tilled land and to spur sugarcane production to become centralized step by step as they get expert in growing sugarcane.

2. Perfect the responsibility system and adopt a format of joint household contracts in sugarcane fields. According to the most recent investigations, Zhangzhou County divides tilled land in the sugarcane[-growing] areas into two parts: One part is for grain ration fields, divided up to the households according to the [number of] people and implementing family contract management. The other is for sugarcane fields, suitably centralized and continuously cropped and implementing joint household contract management. All those who want to plant sugarcane can participate in the contract and those who do not want to plant sugarcane can abstain from doing so. This method thus guarantees that the farmers will have their grain ration, enables sugarcane to be centralized and continuously cropped, so as to reasonably

arrange planting, and carries out scientific cultivation and management. It also solves the difficult problems of cutting and transportation. The results of Zhangzhou's practices have already been seen, and we propose that their experiences be summed up conscientiously and that they be vigorously popularized in other sugarcane[-growing] areas.

3. Encourage the numerous sugarcane farmers to carry out joint and mutual cooperation on a voluntary basis to enable a moderate centralization of sugarcane plantings and to arrive at reasonable organization and timely arrangements for cutting and transportation.

4. Greatly support expanding specialized households for planting sugarcane, enabling them to gradually develop and expand it and to become the foundational ranks in sugarcane production.

III. In View of the New Contradictions Emerging in Profits for All Sides in Sugarcane Production, Appropriate Countermeasures Must Be Adopted

Several of the large mechanized sugar refineries in Fujian are still currently under city [administration], but sugarcane mainly comes from the counties. In the last one or two years, due to the financial departments at each level implementing a part in-kind and part cash system of payment, if counties supplying sugarcane were unable to obtain the corresponding taxes and profits, the financial departments reduced their purchases and life became very difficult. Because of this, contradictions arose where places producing raw materials were, for their own economic interests, not willing to supply sugarcane to large sugar refineries under city administration. Several places where this contradiction already exists objectively lack proper understanding, carrying on as before the whole set of old methods to resolve it, but as a result, making the contradictions more and more prominent. This will bring reductions in sugarcane sources and sugar refineries under city [administration] will operate under capacity. For example, the Zhangzhou Sugar Refinery under Zhangzhou City has a present daily pressing capacity of 6000 tons and in a pressing season can press 650 to 700 thousand tons. But, in the 1985-1986 pressing season, there was only some 500 thousand tons of sugarcane supplied for pressing and the rate of utilization for the equipment was only 71.5 percent.

Because of this, in order to consider the economic benefits for the whole of the sugar refining industry macroscopically and guarantee that sugar refineries under cities can have a relatively ample sugarcane source, these contradictions which appear after the financial departments use the part in-kind, part in cash payment system must be conscientiously studied and proper adjustments by economic means must be used to enable each side to be able to obtain reasonable economic benefits. To do this, the following several proposals are put forth:

1. Implement the principle of taxes and profits returning. If sugar refineries under cities give up their profits to the counties providing sugarcane and render taxes and profits 10 to 20 percent higher than those of the sugar refineries in their own counties, it will enable the sugarcane

producing areas to enthusiastically provide ample sugarcane sources to the sugar refineries under city [administration].

2. Try out material processing methods. Sugarcane producing counties will provide sugarcane to sugar refineries under cities, and, after processing, sugar refineries will receive reasonable processing fees and all of the sugar will be handed over to the sugarcane producing counties for handling.

3. Make appropriate regulations for the distribution of the sugar refineries. In several cities and counties, there are too many small sugar refineries and the economic benefits are low. Regulations must be properly implemented and [these] operations must change course to other projects in order that large sugar refineries with advance equipment and high economic benefits are guaranteed to have ample sugarcane sources. In order to resolve the difficulties in changing course and to reduce losses, the large sugar refineries receiving the raw materials ought to vigorously help the small discontinued sugar refineries to change operations to new lines of business.

4. Expand lateral economic alliances between the sugar refineries under city [administration] and counties supplying sugarcane and establish limited joint stock companies for sugarcane production so that responsibilities for profits and losses can be assumed together.

In order to better spur enthusiasm at each governmental level to expand cane sugar production, the relationships among the provincial, city, and county financial departments must be properly handled and the taxes and profits created by the sugar refining industry must be rationally distributed. And, realistically managing to get the due incomes for each level will be safeguarded. Seeing that the principle of provincial financial departments not granting subsidies to sugarcane over the set base was implemented several years ago in the province, it caused local financial offices to bear heavier burdens and created new contradictions which were very unfavorable to the expansion of cane sugar production. Because of this, it is proposed that one of the following methods below be adopted to resolve them: One is that the provincial financial departments be responsible for subsidizing a portion of that which exceeds the base and that the sugar yield excess also be given over to the province for handling; another is that the subsidy for a portion of that which exceeds the base be the responsibility of the local financial offices and that the sugar yield excess remain locally and be handled by them; another is that in light of the method of a 3:7 division already carried out on taxes and profits on a portion of that which exceeds the base, the sharing of subsidy responsibilities can also be split 3:7.

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AGRICULTURE

GANSU DEVELOPMENTS IN FORESTRY, GRASSLANDS, ANIMAL HUSBANDRY

Lanzhou GANSU RIBAO in Chinese 11 Aug 86 p 1

[Article by Xu He [1776 5440]: "Gansu in Change -- More Trees: Three Year Afforestation Makes Up One-third of the Accumulated Area of 37 Years -- More Grasslands: One-half Mu Average Grassland Per Capita Agricultural Population Throughout Province -- More Livestock: 7.1% Average Increase for Three Years in Large Livestock]

[Text] Gansu is changing: there are more trees, there are more grasslands, and there is more livestock. Green life has appeared in the vast tracts of barren hills, ravines and sands, and a group of agricultural households are beginning to shake off poverty and make themselves rich by taking up forestry and animal husbandry. These are gratifying achievements which have been obtained in Gansu in the past three years by implementing changes in the strategic orientation of agricultural development.

Since August 1983, the peoples of Gansu have implemented the new agricultural policy of "planting grasses and trees, developing animal husbandry, transforming the land, and wiping out poverty to make wealth" which was put forth by Comrade Hu Yaobang, and they have launched a mass grass- and tree-planting movement of immense scale. In the past three years, 10.33 million mu have been afforested throughout the province, making up one-third of the accumulated afforestation in the 37 years since liberation. Historically, it has been a period of the fastest afforestation development. According to agricultural population averages, afforestation per person throughout the province in these three years has exceeded a half-mu. Accumulated afforested area in the five prefectures of Qingyang, Pingliang, Longnan, Tianshui, and Dingxi in the three years is more than a million mu. Due to rather fast development in forestry, by the end of last year, the overall output value in forestry throughout the province reached 315 million yuan, an increase of 88.6% over that of 1982.

Planting grasses has become a huge project in transforming the ecological appearance of Gansu. In these three years, more than 9 million mu of new grasslands and seedbeds [reading miao 5379 for liu 3966] have been added throughout the province. By the end of last year, the area kept for planting grasses reached 11.69 million mu, an increase more than double that 1983. According to agricultural population averages throughout the province, each

person has more than a half-mu of grassland. In Qingyang and Dingxi prefectures, the area kept for planting grasses in these three years exceeded 2 million mu. The large amount of grass-planting has initially transformed the ecological appearances of several places and has reduced soil erosion. The difficulties of a complete lack of the "three feeds" in the central prefectures has basically been resolved. Forage grasses in many places have changed from being in shortage to being in surplus and are being sold as commodity grasses. According to statistics, 42.9 million kilograms of pulverized grasses have been processed throughout the province since last year. The feed industry has come from nothing and is now taking shape. Since last year, there were more than 690 mixed feed processing plants (points) built only for the animal husbandry system and they produced 39.78 million kilograms of compound and mixed feed.

The planting of grasses promoted the development of the animal husbandry industry and the economics of the animal husbandry industry has changed rapidly from a long-term dependency on an agricultural self-containment model to a commodity model. According to data provided by the animal husbandry departments, large livestock have increased throughout the province an average 7.1% annually from 1983 to 1985 to more than 5 million head. Great development strides have also been made for the other types of livestock and domestic animals. The total output value of meat increased 65.4 percent to reach 248 million kilograms. Last year, the average commodity rate of livestock products of every type throughout the province was 81 percent, and the total output value of the animal husbandry industry reached more than 880 million yuan, an increase of 46 percent over that of 1983.

Now, the grass- and tree-planting in Gansu is beginning to focus on ecological benefits, and, in a change to combine ecological benefits and economic benefits, stress is being laid on raising economic benefits. In the first half of this year, 3.55 million mu of afforested areas were completed throughout the province. Of these, forest types with rather high economic value, such as timber forests and economic forests, increased 90,000 mu and 164,000 mu, respectively, over that for the same period last year. 3.94 million mu of grass-planting was completed. Of this, the area of grass-planting in the three types of barren areas and in places withdrawn from cultivation greatly increased; this is favorable to grain production and the development of animal husbandry. Many places have begun to pay attention to the selection of grass varieties and to technological requirements and have begun to stress grass-planting benefits.

Notable achievements have been obtained in the three years of grass- and tree-planting in Gansu. It is a result of uniting the hearts of the peoples throughout the province and making arduous efforts, and it is the great support and close interrelationships of each area in China with the ardent concern of the Party Central Committee. In the three years, the weather has been cooperative, good for crops, and has created a good opportunity for growing trees and grasses in Gansu.

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AGRICULTURE

HEILONGJIANG GRAIN ENTERPRISE DEFICITS REDUCED

Beijing ZHONGGUO SHANGYE BAO in Chinese 11 Sep 86 p 1

[Article by Zhao Shihuan [6392 1102 3883]: "Grain Dealers in First Half of Year Reduce Deficit More Than 20 Million Yuan Over Same Period Last Year; Grain Enterprises in Heilongjiang Exert All Their Strength to Make Up Deficits"]

[Text] Since this year, every level of grain departments and financial departments in Heilongjiang have jointly formed organizations to make up deficits and increase surpluses, resolutely carrying out the task of making up deficits and increasing surpluses in grain enterprises, and revealing at every level the fine all-out effort to make up deficits and produce surpluses. According to statistics, in the first half of the year grain enterprises realized a total profit of 136 million yuan, 42 percent more than in the same period last year. According to contracted specification calculations, after absorbing the additional costs of bringing in corn from Jilin, the increased main deficit from the increased supply of rice, the adjustment in workers' wages, and other factors, grain dealers were still able to reduce the deficit 27 million yuan over the same period last year.

In the first half of the year, grain departments at every level in Heilongjiang put the main emphasis on the following three matters in their making up deficits and producing surpluses: The first was straightening up funds. In the province as a whole, 125 million yuan of funds with problems were gotten back. The second was to fix the sites and size of the workforce. By fixing the sites and size of the workforce, Heilongjiang separated out 17,600 surplus personnel and has made arrangements for 15,160 of them (mainly by taking advantage of the industry's strengths to develop a variety of businesses). Heilongjiang also cleared things up by discharging 17,678 workers hired from outside; by just discharging temporary workers, 12 million yuan in expenses can be saved each year. The third was to find out exactly how much property and funds they had. In Heilongjiang there are 490 granaries, 96.8 percent of the total, which have completed or almost completed the task of sorting through supplies. These units discovered 3.65 million currently missing gunnysacks, 1.85 million flour sacks, and 22,900 oil barrels; with the addition of other missing materials, the total value was 19.85 million yuan.

The next half of the year is a period when grain enterprises spend more money; the provincial grain bureau calls on every level of grain departments to further stress the task of making up deficits and increasing surpluses.

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